2007 Annual Report

Sessional Paper No. 164
1st Session 39th Parliament
Tabled JUN 4 - 2008
Tabling Clerk: mfz

COPY

It's all about performance

ONTARIOPOWER
GENERATION

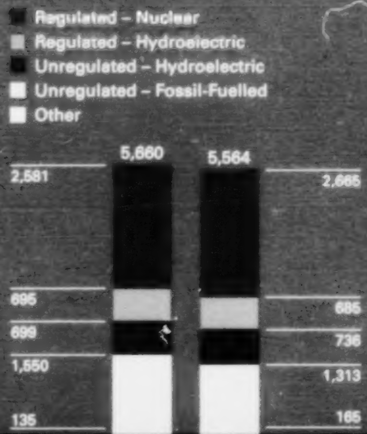
2007 overview

Financial highlights

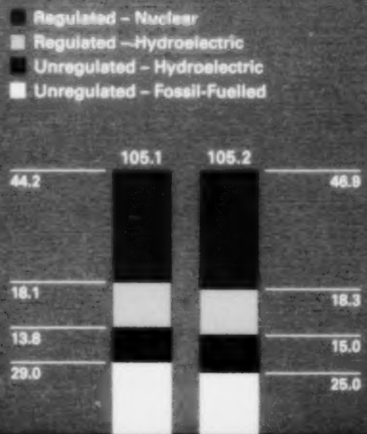
Years Ended December 31 (millions of dollars)	2007	2006
Revenue		
Revenue before revenue limit rebate	5,887	5,725
Revenue limit rebate	(227)	(161)
	5,660	5,564
Earnings		
Income before the following:	610	791
Other (gains) and losses	(10)	22
Income before interest and income taxes	620	769
Net interest expense	143	193
Income before income taxes	477	576
Income tax (recoveries) expenses	(51)	86
Net income	528	490
Electricity production (TWh)	105.1	105.2
Cash flow		
Cash flow provided by operating activities	407	397

Revenue and operating highlights

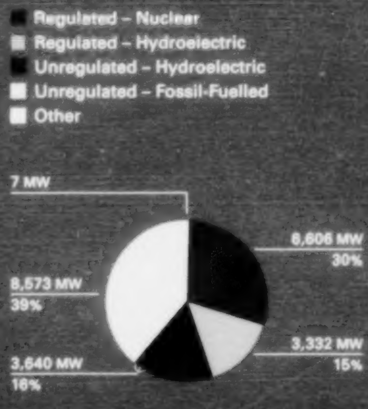
Revenue, Net of Revenue Limit Rebate by Segment
(millions of dollars)



Electricity Generation by Segment
(TWh)



In-Service Generating Capacity by Segment
December 31, 2007
22,158 MW



Corporate profile

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the Business Corporations Act (Ontario) and is wholly owned by the Province of Ontario.

In 2007, OPG had approximately 11,700 regular employees and generated 105.1 terawatt hours (TWh) of electricity.

OPG's electricity generating portfolio as of December 31, 2007, had a total in-service capacity of 22,158 megawatts (MW), which consisted of:

- three nuclear generating stations with a capacity of 6,606 MW
- five fossil-fuelled generating stations with a capacity of 8,573 MW
- 64 hydroelectric generating stations with a capacity of 6,972 MW, and
- three wind generating stations (including a 50 per cent interest in the Huron Wind joint venture, which was sold in February 2008).

In addition, OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the 580 MW Brighton Beach gas-fired generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P.

Electricity Terms

One megawatt (MW) is one million watts. Megawatts are a measure of electricity supply capacity at a point in time.

One kilowatt (kW) is 1,000 watts, one gigawatt (GW) is one billion watts, and one terawatt (TW) is one trillion watts.

One kilowatt hour (kWh) is a measure of electricity demand per hour by customers. One kilowatt hour is the energy expended by fifty 20-watt compact fluorescent lights burning for one hour.

The average Ontario household uses approximately 1,000 kWh per month.

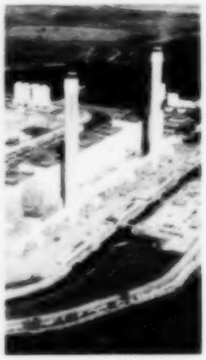
One megawatt hour (MWh) is 1,000 kWh, one gigawatt hour (GWh) is one million kWh, and one terawatt hour (TWh) is one billion kWh.

Contents

2 Highlights
4 Chairman's Message
5 President's Message
7 Delivering on Goals
16 Management's Discussion & Analysis
  54 Corporate Governance
74 Consolidated Financial Statements
79 Notes to the Consolidated Financial Statements
116 Officers
117 Ontario Power Generation Facilities

Tammy Ross, General Tradesperson, Lambton Generating Station – one of the many employees who contributed to OPG's successes in 2007

Highlights



January

Nanticoke generating station located in Haldimand County marks 35 years of meeting Ontario's electricity needs.

During its years of service, Nanticoke has produced nearly 500 TWh – enough to meet the electricity needs of Toronto for about 20 years.

Atikokan generating station employees achieve two years without a lost time injury.

February

OPG launches its updated Code of Business Conduct, which included training provided to over 11,000 employees.

The updated Code reflects the high standards, behaviours and accountabilities by which OPG employees are expected to conduct their business behaviour.

Code of Business Conduct

OPG senior executives appear before the Ontario Government's Standing Committee on Government Agencies to discuss the key aspects of OPG's operations and performance. OPG's presentation was well received by the Committee.

March

Grand opening of the OPG Engineering Building at the University of Ontario Institute of Technology.

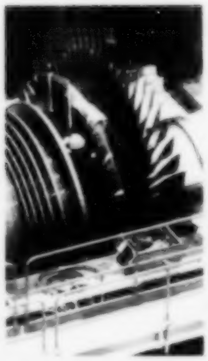
OPG is a major supporter of UOIT, reflecting its strong commitment to the site communities where it operates and to providing educational support to Ontario's young people who represent OPG's and the Province's future.

OPG is named Kincardine "Business of the Year" by the Kincardine and District Chamber of Commerce. The award recognizes excellence in "business growth, customer service and community leadership."

April

OPG submits to the Canadian Nuclear Safety Commission a project description for potential new nuclear units at its Darlington site in Clarington.

The project description is part of a comprehensive federal approvals process required for all new nuclear units in Canada.



May

Unit 4 of the Darlington nuclear station returns from a planned maintenance outage ahead of schedule and on budget.

OPG's Western Waste Management Facility in Kincardine, Ontario receives its first 10-year operating licence from the Canadian Nuclear Safety Commission.

June

Lennox generating station, located on the eastern shore of Lake Ontario near Bath, celebrates 30 years of service.

OPG's Niagara Plant Group wins 2007 Niagara Region Environmental Corporate Award.

Demolition of the Lakeview generating station powerhouse in Mississauga, Ontario is completed. OPG is currently exploring the potential development of a natural gas-fired generating facility at the Lakeview site.

1st quarter

2nd quarter

July

Darlington nuclear generating station receives results from the June peer review, conducted by the prestigious World Association of Nuclear Operators (WANO).

This is the fourth WANO peer review for Darlington and the results are the best ever in the station's history. WANO peer reviews are an important and internationally recognized benchmarking tool for enhancing the safety performance of the world's nuclear industry.

August

OPG generating stations – especially Fossil – rise to the occasion during high demand days (25,000 MW or more) in late July/early August, and produce the electricity Ontario needs.

OPG's fossil business was well prepared to meet this challenge thanks to its strategic execution of 10 major planned unit outages prior to the high demand period.

September

OPG's approximately 1,000 hydroelectric workers achieve two full years without a lost time injury.

The accomplishment is a first for an entire OPG business unit.

Chats Falls GS
75th Anniversary

Chats Falls hydroelectric generating station, located southeast of Ottawa, celebrates 75 years of service.

President and CEO Jim Hankinson is named "Leader of the Year" by the Ontario Energy Association.

October

OPG is named one of Canada's top 100 employers.

This is the first time OPG has received this award. OPG is also named one of Greater Toronto's Top 50 Employers for the second year in a row.

Employees at the Lennox generating station mark five years without a lost time injury.

OPG's new Darlington Waste Management Facility receives a 5-year operating licence from the CNSC.

November

OPG submits an application to the Ontario Energy Board for payments on the output from its regulated nuclear and baseload hydroelectric generating facilities.

If approved, the application will result in about a three per cent increase to typical residential bills.

OPG adopts its Policy for Aboriginal Relations, reflecting its commitment to build long-term, working relationships with aboriginal communities near its existing and future facilities.

December

Employees at the Thunder Bay generating station reach 10 years without any lost time due to workplace injuries.

By the end of December, both Darlington and Pickering B nuclear sites had worked all year without a lost time injury, with Darlington reaching 4 million hours worked without a lost time injury.

OPG receives the Canadian Electricity Association's Silver President's Award for Safety Excellence, in recognition of its top quartile safety performance in both 2005 and 2006.

3rd quarter

4th quarter

Jake Epp

Chairman's message

> "Going forward, the OPG Board will continue to direct its experience and expertise toward effectively governing OPG and serving the people of Ontario."

OPG's Board of Directors consists of seasoned business professionals with extensive experience in areas important to OPG's success. These areas include: the management and operation of nuclear stations; management of complex projects; overseeing capital intensive enterprises; expertise in financing and financial services; and the restructuring of large business enterprises. In 2007, OPG was well served in these areas as the Board's extensive expertise was brought to bear in guiding OPG through a number of challenges facing the Ontario electricity sector.

Ontario needs to develop significant new electricity supply over the next decade. OPG's current work on the environmental assessment for new nuclear units at Darlington, as well as its hydroelectric and natural gas generating projects currently in development or under construction will make significant contributions to meeting those needs.

The Board is proud of OPG's operating performance in 2007, especially its strong safety performance, and commends employees for their hard work and success in this area.

The Board was equally impressed with OPG's environmental performance; community service and corporate citizenship initiatives; the high reliability of its generating stations; and the commitment shown by employees in meeting Ontario's electricity needs – especially during the peak demand days in the summer.

Going forward, the OPG Board will continue to direct its experience and expertise toward effectively governing OPG and serving the people of Ontario.

On behalf of the Board, I want to congratulate OPG for its strong performance in 2007. We look forward to the company's continued success in 2008 and beyond.*

Jake Epp.

Jake Epp
Chairman

---

*Photos and biographies of OPG Board members can be found on pages 55–60 of this report.

Jim Hankinson

President's message

"OPG continued its focus on improved performance, on expanding our generating capacity, and on achieving financial sustainability. I am encouraged by our progress."

The year 2007 was a year of strong performance for OPG in many areas.

Our employee safety performance was the best in OPG's history. The reliability of our fossil and hydroelectric stations is the best it has been in years. The performance of our Darlington nuclear station was outstanding across a broad range of measures – including unit capability, planned outage performance, production, and peer recognition. The Pickering nuclear facilities achieved excellent safety and environmental results despite some one-time setbacks in production.

Equally impressive were OPG's achievements in areas such as community relations, the environment, corporate citizenship, corporate reputation and stakeholder credibility. These measures will be important areas of focus for us going forward.

OPG was also recognized externally for its performance as one of Canada's and Greater Toronto's top employers. These honours motivate us to ensure that OPG continues to make progress as a place where all employees feel valued, recognized and are engaged in their work and careers.

A key challenge in 2007 has been improving our financial strength. Under current regulations, OPG does not receive an adequate return on generation from its nuclear and baseload hydroelectric stations – representing 60 per cent of our generation. This limits our ability to invest in existing generation assets and finance new generation projects which our Shareholder has directed us to undertake. In November, we submitted an application to the Ontario Energy Board, seeking a rate of return consistent with the scope and risk profile of the business we operate. This application is subject to a public hearing process in 2008.

While taking steps to ensure financial sustainability, OPG continued to enhance Ontario's electricity supply through new generation projects. The company's major new supply projects – the Niagara Tunnel, the Lac Seul generating station and the Portlands Energy Centre partnership with TransCanada Energy – all moved forward in 2007, with Portlands on target to produce its first power by mid-2008.

We also continued to assess the feasibility of refurbishing the Pickering B nuclear station and made progress on the federal approvals process for potential new nuclear units at our Darlington site. This is in addition to pursuing a number of proposed hydroelectric projects in northern Ontario, which are in various stages of development. Toward the end of the year, the Ontario Government directed the Ontario Power Authority to negotiate Hydroelectric Supply Agreements with OPG that will allow many of these new hydroelectric projects to move forward.

OPG's Nuclear Support employees provide expertise and services essential to the safe and efficient operation of OPG's nuclear facilities. Their responsibilities include areas such as engineering and modifications; supply chain; programs and training; and performance improvement and oversight. Highly trained and committed professionals, they are typical of the many skilled and dedicated employees who are part of the OPG team.

Over the next few years, OPG expects to be called upon by the Government to provide even more electricity supply to meet Ontario's energy needs. Much of this supply will come from new nuclear and natural gas. OPG will work with the Government on identifying ways to fully capitalize on this opportunity. This includes the provision for an expansion of OPG's natural-gas electricity production and appropriate financial support and recovery mechanisms for new build nuclear activities. OPG is also taking steps to strengthen its project management capabilities to further ensure success in building new supply.

Despite challenges, 2007 was a productive year for OPG on many fronts. OPG continued its focus on improved performance, on expanding our generating capacity, and on achieving financial sustainability. I am encouraged by our progress.

The years ahead look equally promising, with exciting new growth opportunities appearing on the horizon. To earn the right to manage these opportunities, OPG must continue to deliver strong, reliable performance in all our operations and endeavours. In doing this, OPG will rely on its greatest strength – our people. Our many performance achievements are due to the skill and dedication of our people. I am proud of what they have accomplished and thank them for their significant contribution to OPG in 2007.

Jim Hankinson
President and CEO

Delivering on goals

OPG is a performance-driven company with a strong commercial orientation. Consistent with this focus, we regularly measure and assess performance across a wide range of areas. In 2007, OPG made progress in many of these areas, including the following:

Performance

Performance by the numbers

Nuclear
Workplace Safety

over
8 million hours

Darlington and Pickering A & B nuclear stations – total hours without a lost time injury

Hydro
Availability

94 %

Best since 1984

Fossil
Reliability
(Forced Outage Rate)

11.5 %

Best since 2000

Projects

Initiatives underway and new proposals

Hydroelectric
(MW)

254

Number of MW added to OPG's Hydro capacity through upgrades since 1999

New and Refurbished Nuclear

over
150,000 hours

Number of employee hours devoted to assessing the feasibility of refurbishing Pickering B and in undertaking the federal approvals process for nuclear new build

Service
(households)

500,000

Number of Toronto households that the electricity from Portlands Energy Centre will serve

People

Measuring local involvement

Charity Campaign

$2 million

Value of Charity Campaign donations by OPG employees and pensioners

Corporate Citizenship
(number of initiatives)

over 900

Number of local initiatives supported by OPG Corporate Citizenship Program in 2007

Community Awards

12

Number of major community awards and certifications received by OPG sites and employees in 2007

Financial sustainability and reliable assets help drive our performance

Financial Performance

OPG's 2007 net income was $528 million compared to $490 million in net income earned by the company in 2006. Factors that favourably affected our 2007 earnings included higher earnings from OPG's Nuclear Funds, increases in non-electricity generation revenue, higher fossil generation and a decrease in income tax expense. These positive impacts were partly offset by lower generation from OPG's Pickering nuclear stations, and higher nuclear and fossil maintenance expenses. OPG's earnings also continued to be unfavourably impacted by a fixed price imposed by regulation on generation from its nuclear and baseload hydroelectric stations. The rates for this generation have not increased since they were first established in 2005. This impedes OPG's ability to earn a commercial rate of return and to produce and sustain a revenue stream adequate for meeting the long-term expectations of our Shareholder and the future energy needs of Ontario.

To address the issue, OPG has submitted an application with the Ontario Energy Board requesting an increase on the price it receives on the output of its regulated stations. If approved, this will represent about a three per cent increase to typical residential bills.

Additional measures undertaken by OPG to strengthen financial performance included an internal initiative designed to capture savings from the cost structures and work processes of its many support groups. A number of potential cost-savings opportunities were identified.

Asset Performance

OPG's commitment to improved performance continues to deliver results.

HYDROELECTRIC – Throughout 2007, Hydro availability remained at consistently high levels, finishing the year at 94 per cent. This level of performance has not been achieved since 1984 when the fleet was much younger. While hydro production was slightly lower than planned, our excellent availability has been an important factor in enabling the hydro fleet to maximize production from the highly variable waterflows experienced in most Ontario watersheds in 2007.

OPG's Darlington nuclear station and its employees had an outstanding year in 2007, achieving major successes in safety, production, outage performance, and international recognition.

Hydro's excellent availability over the years is the result of ongoing investments and upgrades, strong equipment performance and shorter-than-planned outage durations.

NUCLEAR – OPG nuclear production benefited from the outstanding performance of the Darlington generating station. The station achieved a capability factor of nearly 90 per cent. It also received its best ever peer review from the World Association of Nuclear Operators and was recognized by the Institute of Nuclear Power Operations for improved performance in nuclear operations. In addition, Darlington's two major planned outages were completed ahead of schedule. This delivers on a pledge made last year to improve our nuclear outage performance. Darlington's safety performance was also very strong.

Pickering had a more difficult year, due to one-time operational and technical challenges experienced at both the A and B stations. Early in the year, Pickering B's production was negatively affected by an accidental release of resin from a third-party supplier into the station's demineralized water system. Pickering A's generation was impacted by an outage to upgrade the station's backup electrical system.

In contrast to these production challenges, the safety and environmental performance of Pickering A and B was excellent. Both stations collectively achieved nearly six million hours worked without a lost time injury. They also received the Corporate Habitat of the Year award from the internationally respected Wildlife Habitat Council for their extensive biodiversity achievements.

FOSSIL – OPG's fossil-fuelled stations continued to demonstrate impressive flexibility and responsiveness in 2007 when called upon to meet Ontario's electricity needs. Fossil production was 29 TWh – 16 per cent higher than in 2006. This increase in generation was achieved concurrent with the successful completion of a major program of planned maintenance outages. Lower hydroelectric and nuclear production was a driving factor behind increased fossil production. Fossil reliability in 2007, as measured by incidence of forced outages, was at its best level since 2000.

Strong performing assets ensure reliability

ABOVE LEFT – Maintenance staff at OPG's Nanticoke generating station remove the generator rotor on Unit 6 during an annual planned overhaul in preparation for internal inspection. Major work performed during the Unit 6 outage included installation of a new high pressure turbine, precipitator modifications, and major boiler work. Planned outages are a regular and important means of maintaining and enhancing performance at all OPG generating stations.

ABOVE RIGHT – On November 10, 2007, Caribou Falls GS Unit 3 was placed back in service after a major unit overhaul and runner upgrade. The upgraded unit will result in an energy increase of 5.9 GWh per year. This successful project completes a three year unit overhaul/runner upgrade program at Caribou Falls GS – adding 4.1 MW of capacity and 22 GWh of energy per year. In total, OPG's runner upgrade program has enhanced the performance of OPG's hydroelectric fleet, adding 254 MW of capacity since 1999 – including 12 MW in 2007.

OPG's environmental commitment continues to grow

Environmental Performance

OPG's overall environmental performance for 2007 was better than target in most areas, and there were no major infractions in areas of regulatory compliance.

One of the company's major initiatives was the adoption of a greenhouse gas management plan, establishing greenhouse gas management strategies for OPG during a transitional period in our generation mix. The plan focuses on: improving the performance of OPG's nuclear and hydro assets; improving the energy efficiency of OPG's generating stations; pursuing the use of biofuels; preparing for "carbon trading;" researching the impact of climate change on our operations; and planting trees through OPG's extensive biodiversity program. OPG planted 320,000 trees in 2007 and has planted a total of 2.8 million native trees and shrubs throughout Ontario since 2000.

In support of its commitment to raise awareness across the company about sustainable development, OPG also provided 600 new supervisors and managers with sustainable development training in 2007. About 3,400 OPG employees have now received this training, which also provides tools to help supervisors and managers apply best practices to their specific operations.

OPG also published its eighth annual Sustainable Development Report. The report provides an open and transparent account of OPG's environmental impact; social and community performance; and economic contribution to Ontario. More than 2,000 copies of the report were distributed to stakeholders in Ontario.

OPG also continued a program to test the burning of biomass fuel at its fossil stations. In addition, OPG's Atikokan generating station continued to support Ontario's Bio-Energy Research Centre by hosting a number of bio-energy initiatives and experiments.

Several OPG sites were recognized in 2007 for their environmental contribution and commitment. OPG's Northeast Plant Group, Ottawa-St. Lawrence Plant Group and Western Waste Management Facility (WWMF) received certification from the internationally respected Wildlife Habitat Council (WHC) for their efforts in protecting and

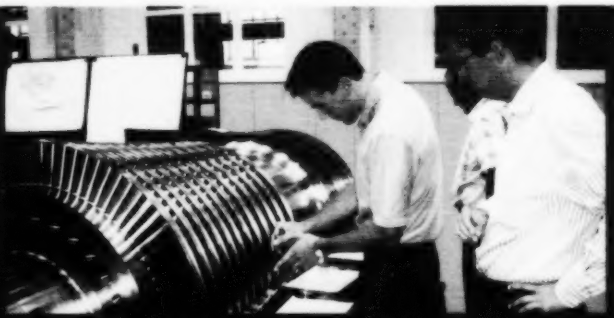
OPG tree planting at Alex Robertson Park, Pickering. Participants included: employee Heather O'Hagan; Pickering Councillor, Bill McLean; Pickering Mayor, Dave Ryan; Pickering Councillor, Jennifer O'Connell; Ajax-Pickering MP, Mark Holland; and employee, Nicole O'Hagan.

enhancing wildlife habitat on their properties. A total of 11 OPG sites have now been certified for their wildlife habitat programs by the WHC. The WHC also honoured the Pickering Nuclear site with its 2007 Corporate Habitat of the Year award. This was the second time Pickering has received this prestigious award, having won it previously in 2001. In addition to this honour, Pickering achieved the Wildlife at Work re-certification for its habitat management program.

Nuclear Waste Management

OPG is committed to the responsible and safe management of nuclear waste. The company prides itself on its impeccable environmental record in this area. In 2007, OPG increased its nuclear waste management capability by opening its new Darlington Waste Management Facility. The facility was completed on-schedule and on-budget and will provide additional used nuclear fuel storage capability for the Darlington site. Earlier in the year, OPG's Western Waste Management Facility (WWMF) received a 10-year operating licence from the Canadian Nuclear Safety Commission (CNSC). The licence reflects not only the company's excellent performance and track record in safely managing nuclear waste, but also the well established community support and trust that exists for these operations. Also in 2007, the WWMF safely took delivery of 16 steam generators from Bruce Power's current refurbishment of the Bruce A nuclear station, Units 1 and 2. This was also a first for OPG – and for Canada's nuclear industry.

Progress also continued on OPG's proposed Deep Geologic Repository (DGR) for the long-term, safe storage of low and intermediate nuclear waste. As part of the consultation process for this project, OPG hosted open houses to give the public an opportunity to gain more information and comment about the DGR. Over 200 people attended these events, held in seven communities in and around Kincardine, Ontario – the site for the proposed DGR. OPG is committed to an open and transparent public consultation process, which is part of an extensive and rigorous approval process for the DGR. Pending approvals and licensing by all appropriate regulatory agencies, the DGR will begin construction in 2012 and operation in 2017.



Environmental stewardship is a core value

ABOVE LEFT – In 2007, OPG neared completion on a two-year Environmental Improvement program at the Nanticoke generating station to improve the station's environmental footprint. Efficiency and equipment improvements made under the program will save enough electricity to power about 10,000 homes. Shown here is OPG employee Dave Thom inspecting a high pressure turbine destined for Nanticoke as part of the program.

ABOVE RIGHT – OPG's Niagara Plant Group receives from the Niagara Region Council the 2007 Niagara Region Environmental Award. Pictured L to R are: Niagara Falls Mayor, Ted Salci; OPG Senior Environmental Advisor, Tony Van Oostrom; Niagara Regional Chair, Peter Partington; and Niagara Ecological and Environmental Advisory Committee Chair, John Lundrigan. OPG's strong environmental commitment earned the company and its stations significant recognition in 2007 from such respected environmental groups as the Wildlife Habitat Council.

OPG's new generation projects contribute to Ontario's energy future

Portlands Energy Centre

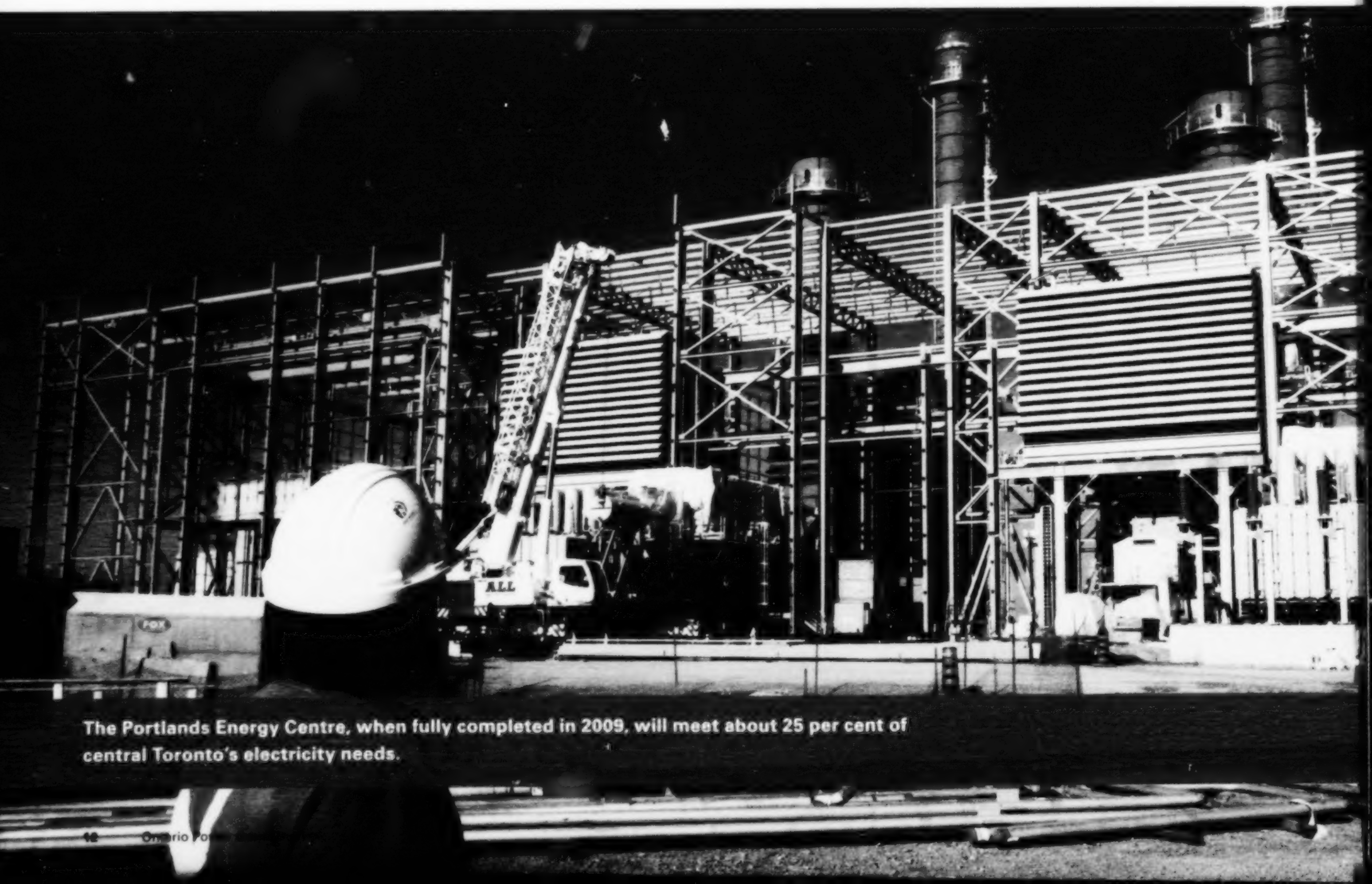
The Portlands Energy Centre (PEC) completed the year on-schedule and on-budget. The 550 MW natural-gas generating station in downtown Toronto is a joint partnership with TransCanada Energy. The facility is scheduled to be in service and providing 340 MW of capacity by June 1, 2008. Another 210 MW is coming on-line in 2009 – the project's targeted completion date. The PEC will operate at a "high efficiency factor," which enables it to achieve maximum electricity production from every unit of fuel used. This translates into lower fuel usage and lower emissions per unit of electricity produced.

Hydropower Initiatives

NIAGARA TUNNEL – At the end of 2007, excavation work on the Niagara Tunnel was behind schedule – a result of the design-build contractor encountering an area with more difficult rock conditions than the contractor anticipated. Considerable schedule uncertainty will remain until the Tunnel Boring Machine (TBM) excavating the Tunnel moves well beyond the area where these conditions are being encountered and establishes more consistent performance. The TBM must bore through as many as 10 different rock types before it completes its journey. The contractor has advised that the in-service date of the Tunnel will be delayed, and is investigating alternatives to mitigate the impact of the delay. Meanwhile, work on the intake area of the Tunnel progressed well and was ahead of schedule.

LAC SEUL – Progress continued on Lac Seul GS in 2007, but the replacement of two major subcontractors by the project's design-build contractor delayed its completion. The new in-service date is expected to be in the third quarter of 2008.

OTHER HYDROELECTRIC PROJECTS – OPG is developing several additional hydro projects. At the end of 2007, the OPG Board authorized construction to proceed on the Upper Mattagami and Hound Chute redevelopment projects. Approval was also received to proceed with the Healey Falls expansion project. OPG is working with the Ontario Power Authority on developing revenue agreements for electricity from Lac Seul, Hound Chute, Healey Falls, and the Upper and Lower portions of the Mattagami River.



The Portlands Energy Centre, when fully completed in 2009, will meet about 25 per cent of central Toronto's electricity needs.

Extending OPG's Nuclear Operations

In responding to Ontario's growing electricity needs and the recommendations of the Province's Integrated Power System Plan, OPG is exploring initiatives to enhance and enlarge its nuclear operations. These involve examining the feasibility of refurbishing its existing nuclear stations and undertaking an approvals process for new nuclear units at the Darlington nuclear site. Advances were made in both areas in 2007.

PICKERING B REFURBISHMENT – As part of the business case assessment for refurbishing its Pickering B nuclear station, OPG conducted studies that included a Plant Condition Assessment; an Integrated Safety Review; cost estimates; and a Federal Environmental Assessment (EA). OPG also submitted to the CNSC an Environmental Assessment Study Report in which OPG concluded that no significant environmental effects are anticipated from either refurbishment or operation for a further 25–30 years. Public consultations were also held to inform stakeholders about the potential refurbishment. In 2008, OPG will continue its refurbishment studies with respect to Pickering B while continuing to operate the station safely and efficiently. Assessment of the potential refurbishment of the Darlington nuclear station is scheduled to begin in 2008.

NEW NUCLEAR – OPG's expertise and experience in nuclear operations, the strong performance of its Darlington station, and the suitability of the Darlington site itself, make OPG an excellent candidate to manage the development and operation of new nuclear units. As part of its planning process for new nuclear units at Darlington, OPG launched initiatives to support an EA at the site – including groundwater, air quality, water quality and cultural/heritage studies. The field work is underway to collect data for these studies. In April 2007, OPG filed a Project Description that is being used by the CNSC to determine the type of EA required. OPG also joined with Bruce Power to jointly assess, from an operator's perspective, the potential reactor technologies that may be used in new nuclear generating facilities. This assessment was communicated to the Ontario government, which is conducting its own process to select a nuclear reactor vendor.

OPG is building a foundation for growth

ABOVE LEFT – An OPG information session in Oshawa helps local residents better understand OPG's initiative for potential new nuclear units at its Darlington site. OPG held eight such sessions in 2007. Extensive advertising, briefing sessions, and other communications initiatives enabled OPG to reach more than 1,500 community members.

ABOVE RIGHT – OPG representatives meet with leaders of the Lac Seul First Nation in August to sign a settlement agreement to redress past grievances. In 2007, OPG settled two past grievances with First Nations groups and signed Agreements in Principle with three others. These included a settlement with the Taykwa Tagamou Nation that set precedents for the future development and partnership for a new 25 MW station on the Abitibi River. Agreements like these reflect OPG's recognition of, and regret for, any past grievances to First Nations that may have occurred from the actions of its predecessor companies. They also help fulfill OPG's mandate to develop new hydroelectric projects in northern Ontario.

Employees and communities are a source of pride and strength for OPG

Employees

Employees account for OPG's present and future success. Our employees are highly trained, well educated and experienced. Throughout 2007, OPG continued to develop and implement policies designed to retain and attract high calibre, engaged individuals capable of achieving and leading the company to success in the years ahead. To this end, specific initiatives to further strengthen the company's leadership development, succession planning, talent management and recruitment were rolled out during the year. Going forward, OPG will be paying particular attention to broadening its expertise in project management – an area where it anticipates higher levels of activity over the next several years.

EMPLOYEE SAFETY – OPG's ongoing commitment to safety excellence resulted in the best safety performance OPG has achieved since its inception in 1999. Many individual sites and businesses celebrated major safety performance milestones consisting of multiple years without a lost time injury.

- OPG's 2007 All Injury Rate was 1.12 injuries per 200,000 hours worked which was better than 2006 performance of 1.30 injuries per 200,000 hours, and within the top quartile (2006) set by the Canadian Electricity Association.
- OPG's 2007 Accident Severity Rate (ASR) was 1.56 days lost per 200,000 hours worked. This is dramatically better than our 2006 ASR of 5.87 days lost per 200,000 hours and within the top quartile (2006) set by the Canadian Electricity Association.

OPG is also committed to continuous improvement in its safety management and risk control programs and has developed a five-year plan to achieve this goal. Under the plan, initiatives are underway to strengthen safety leadership among employees and enhance OPG's already robust safety culture with communications that raise awareness of safety risks and encourage employees to make safe choices. In the risk reduction area, OPG is implementing a Musculoskeletal Disorder Prevention

OPG Fossil Business Analyst, Gord Bath and his son, Ethan, enjoy themselves at the Nanticoke Generating Station's Open House in June 2007. The event attracted over 1,000 community residents.

Guideline, developed in partnership with its employee unions, to address an area that has been an ongoing safety challenge.

CANADA'S "TOP 100" EMPLOYER – OPG prides itself on being a good employer – providing opportunities for career advancement, job satisfaction, personal fulfillment and work-life balance that contribute to employees' success, dignity and self worth. In recognition of its efforts in this area, OPG was named as one of Canada's Top 100 Employers for 2008. OPG was also named as one of the Greater Toronto Area's Top 50 Employers for the second year in a row.

Community

OPG and its employees are engaged and active participants in the communities that host our facilities. Through its Corporate Citizenship Program, OPG focuses on supporting non-profit, local initiatives that benefit education, the environment, and the community. More than 900 such initiatives received support in 2007. The majority of these were small initiatives at the grass roots level. OPG also supported a few larger initiatives in 2007. These included the Scientists in School Education Program in Niagara Region; the OPG "Reading is Cool" youth reading-camp events in Moose Cree and Wabaseemoong First Nations; and the FIRST Lego League Robotic Tournaments for primary and middle school students held in four host communities.

OPG builds trust through openness and transparency in its dealings with communities. Staff from our major facilities regularly brief community and municipal leaders about site operations and developments. To inform communities about major undertakings such as nuclear refurbishment, the building of new nuclear units, and construction of nuclear waste management, OPG launched numerous public information sessions, open houses and other events across Ontario in 2007. Open houses were also held to celebrate station anniversaries at Nanticoke, Lennox and Chats Falls generating station – further enhancing relationships between OPG and host communities.

People define our values and our goals

ABOVE LEFT – OPG summer students display some of the 5,000 books they collected during the summer as part of OPG's "Reading is Cool" initiative for Aboriginal children at two reserves in northern Ontario. This initiative is one example of the many charity and volunteer activities that OPG employees and pensioners regularly undertake.

ABOVE RIGHT – OPG employee Nawal Chishty (centre) talks to students Andy Pan and Jo Liang at the University of Ontario Institute of Technology about career opportunities. In the Fall of 2007, OPG's new Graduate Recruitment Campaign targeted 12 university campuses across Ontario and Eastern Canada as well as half a dozen community colleges in Ontario. On-campus recruiting is one of several initiatives underway at OPG to attract talented young people to the company.

Management's discussion & analysis

Management's Discussion & Analysis

16 Forward-Looking Statements
17 The Company
17 Rate Regulation
18 Highlights
22 Vision, Core Business and Strategy
28 Capability to Deliver Results
28 Ontario Electricity Market Trends
29 Business Segments
29 Key Generation and Financial Performance Indicators
31 Discussion of Operating Results by Business Segment
  32 Regulated – Nuclear Segment
  34 Regulated – Hydroelectric Segment
  36 Unregulated – Hydroelectric Segment
  36 Unregulated – Fossil-Fuelled Segment
  38 Other
  38 Net Interest Expense
  38 Income Taxes
39 Liquidity and Capital Resources
41 Balance Sheet Highlights
44 Critical Accounting Policies and Estimates
49 Risk Management
54 Related Party Transactions
54 Corporate Governance
63 Audit/Risk Committee Information
66 Internal Controls over Financial Reporting and Disclosure Controls
67 Fourth Quarter
70 Quarterly Financial Highlights
71 Supplemental Earnings Measures

Consolidated Financial Statements

72 Statement of Management's Responsibility for Financial Information
73 Auditors' Report
74 Consolidated Financial Statements
79 Notes to the Consolidated Financial Statements

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the year ended December 31, 2007. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. Certain of the 2006 comparative amounts have been reclassified to conform to the 2007 presentation. This MD&A is dated February 28, 2008.

Forward-Looking Statements

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot electricity market prices, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, the weather, and the developments with respect to third-party Asset-Backed Commercial Paper. Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

Management's discussion & analysis

Management's Discussion & Analysis

16 Forward-Looking Statements
17 The Company
17 Rate Regulation
18 Highlights
22 Vision, Core Business and Strategy
28 Capability to Deliver Results
28 Ontario Electricity Market Trends
29 Business Segments
29 Key Generation and Financial Performance Indicators
31 Discussion of Operating Results by Business Segment
  32 Regulated – Nuclear Segment
  34 Regulated – Hydroelectric Segment
  36 Unregulated – Hydroelectric Segment
  36 Unregulated – Fossil-Fuelled Segment
  38 Other
  38 Net Interest Expense
  38 Income Taxes
39 Liquidity and Capital Resources
41 Balance Sheet Highlights
44 Critical Accounting Policies and Estimates
49 Risk Management
54 Related Party Transactions
54 Corporate Governance
63 Audit/Risk Committee Information
66 Internal Controls over Financial Reporting and Disclosure Controls
67 Fourth Quarter
70 Quarterly Financial Highlights
71 Supplemental Earnings Measures

Consolidated Financial Statements

72 Statement of Management's Responsibility for Financial Information
73 Auditors' Report
74 Consolidated Financial Statements
79 Notes to the Consolidated Financial Statements

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the year ended December 31, 2007. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. Certain of the 2006 comparative amounts have been reclassified to conform to the 2007 presentation. This MD&A is dated February 28, 2008.

Forward-Looking Statements

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could" and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs and availability, asset performance, nuclear decommissioning and waste management, closure of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post employment benefit ("OPEB") obligations, income taxes, spot electricity market prices, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, the weather, and the developments with respect to third-party Asset-Backed Commercial Paper. Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

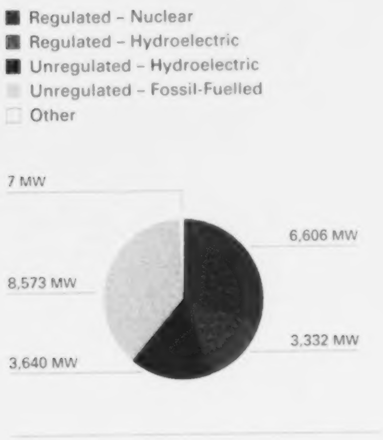
The Company

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG's focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

At December 31, 2007, OPG's electricity generating portfolio had an in-service capacity of 22,158 megawatts ("MW"). OPG's electricity generating portfolio consists of three nuclear generating stations, five fossil-fuelled generating stations, 64 hydroelectric generating stations and three wind generating stations (including a 50 per cent interest in the Huron Wind joint venture, which was subsequently sold in February 2008). In addition, OPG, ATCO Power Canada Ltd. and ATCO Resources Ltd. co-own the Brighton Beach gas-fired generating station. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. ("Bruce Power").

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that the Company operates became rate regulated. OPG receives the spot market price for the output from its remaining hydroelectric, fossil-fuelled and wind generating stations, subject to a revenue limit on the majority of this output.

In-Service Generating Capacity by Segment
December 31, 2007
22,158 MW



Rate Regulation

A regulation was introduced pursuant to the *Electricity Restructuring Act*, 2004 (Ontario), which provides that, effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric and all of the nuclear facilities that it operates. This comprises electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities.

The regulated price received by OPG for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour is $33.00/MWh (3.3¢/kWh). As an incentive to encourage maximum hydroelectric electricity production during peak demand periods, any production from these regulated hydroelectric facilities above 1,900 MWh in any hour receives the Ontario electricity spot market price. The regulated price received by OPG for production from the nuclear facilities is $49.50/MWh (4.95¢/kWh). These regulated prices were established by the Province, based on a revenue requirement taking into account a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. These initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, after which time the Ontario Energy Board ("OEB") will assume responsibility for establishing new regulated prices.

The regulation directed OPG to establish variance accounts for costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices. Variance accounts have been established for differences in hydroelectric electricity production due to differences between forecast and actual water conditions; unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities; changes to revenues for ancillary services from the regulated facilities; acts of God (including severe weather events); and transmission outages and transmission restrictions. In addition, the regulation directed OPG to establish a deferral account for non-capital costs incurred on or after January 1, 2005 that are associated with the planned return to service of all units at the Pickering A nuclear generating station.

An amendment to the regulation was made by the Province in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. The amendment directed OPG to establish a deferral account to record, up to the effective date of the OEB's first order establishing regulated prices, the revenue requirement impact of any changes in its nuclear liabilities arising from a new reference plan, approved after April 1, 2005, in accordance with the terms of the Ontario Nuclear Funds Agreement ("ONFA").

The amendment also clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred by OPG in order to increase the output of, refurbish, or add operating capacity to a regulated facility. The amendment requires these costs be within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices, or that the OEB is satisfied that these costs were prudently incurred.

In February 2008, a second amendment to the regulation was made by the Province. This amendment directs OPG to establish a deferral account to record, for the period up to the effective date of the OEB's first order, the costs incurred and firm financial commitments made on or after June 13, 2006, in the course of planning and preparation for the development of proposed new nuclear generation facilities. This amendment further directs OPG to establish a variance account to record, for the period on or after the effective date of the OEB's first order, the differences between actual non-capital costs incurred and firm financial commitments made, and the amounts included in the approved regulated price related to planning and preparation for the development of proposed new nuclear generation facilities. In addition, the amendment states that the OEB must ensure that OPG recovers these costs to the extent the OEB is satisfied that the costs were prudently incurred or commitments prudently made.

In November 2007, OPG filed an application with the OEB for new payment amounts for its regulated facilities effective April 1, 2008, for a 21-month period. OPG invited stakeholders to participate in consultation sessions, which occurred in early November, in advance of filing this application. The intent of the consultations was to inform stakeholders about OPG's regulated facilities and to discuss issues related to the application for new payment amounts. OPG is seeking a rate of return consistent with the scope and type of business risks associated with reliably operating, maintaining and developing its regulated assets. Further information about OPG's application filed with the OEB is included under the heading *Recent Developments, Decisions by the Ontario Energy Board*.

The production from OPG's other generating assets remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 per cent of the generation output from OPG's other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options expired on April 30, 2006, volumes sold under such options were excluded from the revenue limit rebate.

The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the Independent Electricity System Operator ("IESO") for the benefit of consumers.

Highlights

Overview of Results

This section provides an overview of OPG's audited consolidated operating results. A detailed discussion of OPG's performance by reportable business segment is included under the heading, *Discussion of Operating Results by Business Segment*.

(millions of dollars)	**2007**	2006
Revenue		
Revenue before revenue limit rebate	**5,887**	5,725
Revenue limit rebate	**(227)**	(161)
	5,660	5,564
Earnings		
Income before the following:	**610**	791
Other (gains) and losses	**(10)**	22
Income before interest and income taxes	**620**	769
Net interest expense	**143**	193
Income before income taxes	**477**	576
Income tax (recoveries) expenses	**(51)**	86
Net income	**528**	490
Electricity production (TWh)	**105.1**	105.2
Cash flow		
Cash flow provided by operating activities	**407**	397

Net income for the year ended December 31, 2007 was $528 million compared to $490 million in 2006, an increase of $38 million. Income before income taxes for the year ended December 31, 2007 was $477 million compared to $576 million in 2006, a decrease of $99 million.

For the year ended December 31, 2007, there was a net income tax recovery of $51 million, compared to an income tax expense of $86 million for 2006. The decrease in income tax expense was largely due to an additional contribution to the Used Fuel Segregated Fund ("Used Fuel Fund") of $334 million in 2007. These contributions are deductible for tax purposes. There is no offsetting future tax expense due to the use of the taxes payable method to account for income taxes for the rate regulated segment. In addition, the income tax expense was favourably impacted by a reduction in federal future income tax rates that were substantively enacted in 2007.

The following is a summary of the factors impacting OPG's results for the year ended December 31, 2007 compared to results in 2006, on a before-tax basis:

(millions of dollars – before tax)

Income before income taxes for the year ended December 31, 2006	**576**
Changes in gross margin	
Increase in electricity sales price after revenue limit rebate and hedging margin	20
Change in electricity generation by segment:	
Regulated – Nuclear	(127)
Regulated – Hydroelectric	(5)
Unregulated – Hydroelectric	(47)
Unregulated – Fossil-Fuelled	61
Increase in fuel expense primarily due to higher costs for coal consumed in production and higher uranium prices	(27)
Increase in ancillary revenue	13
Increase in non-electricity generation revenue primarily due to an increase in nuclear technical services revenue	67
Decrease in trading revenue primarily due to lower mark-to-market gains and lower transaction margins	(45)
Other changes in gross margin	14
	(76)
Increase in operations and maintenance expenses primarily due to higher outage expenditures at OPG's nuclear stations and an increase in maintenance at the fossil-fuelled generating stations	(95)
Increase in costs to support nuclear technical services provided to external parties	(30)
Additional costs included in operations, maintenance and administration expenses related to past grievances by First Nations	(30)
Increase in pension and other post employment benefit costs	(14)
Increase in earnings on nuclear fixed asset removal and nuclear waste management funds	110
Decrease in depreciation expense primarily due to the extension of service lives of the coal-fired generating stations in 2006	65
Decrease in net interest expense primarily due to deferral of interest related to the Pickering A return to service deferral account	50
Increase in amortization of the Pickering A return to service deferral account balance	(71)
Other changes	(40)
Decrease in income before other gains and losses and income taxes	**(131)**
Impairment of long-lived assets recognized in 2006	22
Other gains and losses recognized in 2007	10
Income before income taxes for the year ended December 31, 2007	**477**

Earnings for the year ended December 31, 2007 were unfavourably impacted by a decrease in gross margin from electricity sales compared to 2006 primarily due to lower generation from OPG's nuclear and unregulated hydroelectric generating stations, partly offset by an increase in generation from higher marginal cost fossil-fuelled generating stations. The gross margin from electricity sales was further reduced by higher costs for coal and uranium consumed in production in 2007 compared to 2006.

Gross margin was favourably impacted by an increase in ancillary revenue due to higher revenue recognized related to the Lennox reliability must run ("RMR") contract. The RMR contract is a cost-based contract with the IESO that provides regular payments, which are subject to adjustments for actual costs. The contract was contingent upon approval by the OEB. The increase in revenue recognized in 2007 was partly due to the timing in which OEB approval was issued for the current and prior year contracts.

Gross margin was also impacted by an increase in non-electricity revenue primarily due to an increase in nuclear technical services provided to external parties. Trading revenue decreased in 2007 compared to 2006 primarily due to lower mark-to-market gains and lower margins on trading transactions.

For the year ended December 31, 2007, operations, maintenance and administration ("OM&A") expenses were $2,974 million compared to $2,752 million in 2006. The increase was primarily due to higher outage expenditures at OPG's nuclear generating stations, increased maintenance programs and projects related to the extended period over which the coal-fired generating stations will be required to operate, and additional expenses related to past grievances by First Nations. OPG also incurred additional expenses during 2007 due to the increase in nuclear technical services provided to external parties.

Earnings from the Used Fuel Fund and the Decommissioning Segregated Fund ("Decommissioning Fund") (together, the "Nuclear Funds"), in 2007 were $481 million compared to $371 million in 2006, an increase of $110 million. The increase in earnings from the Nuclear Funds was due to a higher asset base in 2007, a higher Ontario Consumer Price Index ("CPI") in 2007 compared to 2006, which impacted the guaranteed return on the Used Fuel Fund, and the reimbursement from the Decommissioning Fund for expenditures related to the safe storage of Pickering A Units 2 and 3. The increase in earnings from the Nuclear Funds as a result of these factors, was partially offset by a lower rate of return in the Decommissioning Fund in 2007 of 5.15 per cent compared to 5.75 per cent in 2006 as a result of changes in the ONFA Reference Plan, approved in December 2006.

The demolition of the former Lakeview coal-fired generating station was substantially completed during 2007. During the fourth quarter of 2007, the Company re-estimated the costs to complete the remaining work to remediate the site in 2008. As a result, OPG recorded a recovery of $20 million in other gains and losses to reflect a change in the estimated costs.

During the fourth quarter of 2007, OPG recorded impairment losses of $10 million in other gains and losses related to the fair market value of its third-party Asset-Backed Commercial Paper ("ABCP") holdings.

For the year ended December 31, 2006, OPG recognized an impairment loss on the Thunder Bay and Atikokan coal-fired generating stations of $22 million, which represented the carrying amount or net book value of these stations. OPG tested the recoverability of the carrying amounts of the coal-fired stations as a result of changes in circumstance, which included a decrease in forecasted Ontario electricity spot market prices and the extension of the lives of the coal-fired stations. It was determined that the Thunder Bay and Atikokan coal-fired generating stations would not be able to recover their operating and capital expenditures and carrying amount, over their remaining service lives. The impairment charge was recorded in other gains and losses.

Net interest expense for the year ended December 31, 2007 was $143 million compared to $193 million for 2006, a decrease of $50 million. The decrease in net interest expense in 2007 was primarily due to the deferral of interest expense related to the Pickering A return to service deferral account as required by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

The amortization of the Pickering A return to service deferral account increased by $71 million during 2007, compared to the same period in 2006, consistent with the method of recovery of costs included in regulated prices.

Following the introduction of rate regulation on April 1, 2005, OPG has accounted for income taxes related to the rate regulated segments of its business using the taxes payable method. Under this method, future income tax assets and liabilities associated with these segments are not recognized where those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. As a result, OPG did not record a future tax expense of $127 million and $89 million for the rate regulated segments during 2007 and 2006, respectively, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable business segment, net of the revenue limit rebate for the years ended December 31, 2007 and 2006 were as follows:

(¢/kWh)	**2007**	2006
Weighted average hourly Ontario spot electricity market price	**5.1**	4.9
Regulated – Nuclear	**4.9**	4.9
Regulated – Hydroelectric[1]	**3.5**	3.5
Unregulated – Hydroelectric[2]	**4.7**	4.6
Unregulated – Fossil-Fuelled[2]	**4.8**	4.8
OPG's average sales price	**4.6**	4.6

[1] Electricity generated from stations in the Regulated – Hydroelectric segment received a fixed price of 3.3¢/kWh for the first 1,900 MWh of generation in any hour, and the Ontario spot electricity market price for generation above this level.

[2] 85 per cent of the electricity generated from unregulated stations, excluding the Lennox generating station and other contract volumes, is subject to a revenue limit. During the period from April 1, 2005 to April 30, 2006, the revenue limit was set at 4.7¢/kWh. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh and subsequently increased to 4.7¢/kWh effective May 1, 2007.

The weighted average hourly Ontario spot electricity market price was 5.1¢/kWh for the year ended December 31, 2007 compared to 4.9¢/kWh during 2006. The increase was primarily a result of lower nuclear and hydroelectric generation and the impact of higher primary demand in Ontario, partially offset by a stronger Canadian dollar which contributes to lower spot market prices.

OPG's average sales price was 4.6¢/kWh during the years ended December 31, 2007 and 2006. The favourable impact on OPG's average sales price of a higher revenue limit of 4.7¢/kWh for OPG's unregulated electricity generation, which commenced May 1, 2007, was partially offset by a lower revenue limit of 4.6¢/kWh during the period of January to April, 2007. On May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh.

As a result of regulated prices and the revenue limit rebate, OPG's average sales price during 2007 and 2006 was lower than the weighted average hourly Ontario spot electricity market price.

Electricity Generation

Total electricity generated during the year ended December 31, 2007 from OPG's generating stations was 105.1 TWh compared to 105.2 TWh in 2006.

Electricity generation from OPG's nuclear stations was 44.2 TWh in 2007 compared to 46.9 TWh in 2006. The decrease of 2.7 TWh was partly due to the shutdown of Units 1 and 4 at the Pickering A nuclear generating station during the period from June to September to perform modifications on a backup electrical system. Unit 4 was restarted in October 2007. Unit 1 entered a planned outage, and was restarted in early January 2008. Nuclear generation in 2007 was also unfavourably impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant repair work required as a result of a component failure during inspection. In addition, nuclear generation decreased as a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generation station. This outage was caused by an inadvertent release of resin, by a third-party contractor, from the water treatment plant into the station's demineralized water system, and the requirement for maintenance related to the recovery of resin.

For the year ended December 31, 2007, electricity sales volume in the Regulated - Hydroelectric segment was 18.1 TWh compared to 18.3 TWh in 2006. Electricity generated by the unregulated hydroelectric facilities in 2007 was 13.8 TWh compared to 15.0 TWh in 2006, a decrease of 1.2 TWh. The decrease in electricity generated by the regulated and unregulated hydroelectric facilities in 2007 compared to 2006 was primarily a result of lower water levels in Eastern Ontario during the fourth quarter of 2007.

Electricity generation from OPG's fossil-fuelled generating stations in 2007 was 29.0 TWh compared to 25.0 TWh in 2006. The increase was primarily due to lower generation from OPG's nuclear and hydroelectric generating stations, and improved station performance.

OPG's operating results are impacted by changes in demand resulting from variations in seasonal weather conditions. The following table provides a comparison of Heating and Cooling Degree Days for the years ended December 31:

	2007	2006
Heating Degree Days[1]		
Total for year	**3,684**	3,346
Ten-year average	**3,601**	3,626
Cooling Degree Days[2]		
Total for year	**454**	391
Ten-year average	**394**	372

[1] Heating Degree Days are recorded on days with an average temperature below 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

[2] Cooling Degree Days are recorded on days with an average temperature above 18°C, and represent the aggregate of the differences between the average temperature and 18°C for each day during the period, as measured at Pearson International Airport in Toronto, Ontario.

Heating Degree Days for 2007 increased significantly compared to 2006 primarily due to weather that was colder during the first and fourth quarters of 2007 compared to the same quarters in 2006. Cooling Degree Days for 2007 increased compared to 2006 as a result of weather that was warmer than average and warmer compared to 2006. Ontario primary electricity demand was 152.2 TWh and 151.1 TWh for 2007 and 2006, respectively.

Cash Flow from Operations

Cash flow provided by operating activities for 2007 was $407 million compared to $397 million for 2006. The increase in cash flow was primarily due to lower revenue limit rebate payments, the increase in non-electricity generation revenue, and a higher reimbursement of expenditures from the Nuclear Funds associated with the safe storage of Units 2 and 3 at the Pickering A nuclear generating station. The increase in cash flow was partially offset by a one-time contribution of $334 million to the Used Fuel Fund as required by the ONFA, higher operating and maintenance expenditures, and a decrease in cash receipts from electricity sales. The lower revenue limit rebate payments for 2007 compared to 2006 were a result of making a payment of $739 million in the second quarter of 2006 related to the period from April 1, 2005, to December 31, 2005. Revenue limit rebate payments are now made on a quarterly basis.

Recent Developments

Decisions by the Ontario Energy Board

In February 2008, the OEB held a hearing to consider OPG's request that payment amounts for its regulated facilities be declared interim, effective April 1, 2008, and OPG's request for an interim increase in payment amounts. The OEB granted OPG's request that payment amounts be made interim, effective April 1, 2008. This decision preserves the opportunity for OPG to recover the difference between final payment amounts as approved by the OEB and the current payment amounts, for the period between April 1, 2008 and the date of the OEB's final order. The decision regarding retrospective recovery will be made by the OEB as part of the final payment order. The OEB did not approve an interim increase in payment amounts, and stated that if a retrospective recovery adjustment is required, it can be achieved prospectively by spreading the impact of the adjustment over a period after the final order is made. Standard & Poor's Rating Services indicated that OPG's ratings would be unaffected by the OEB's decision with respect to an interim increase in payment amounts.

Investments in Asset-Backed Commercial Paper

In August 2007, a number of Canadian third-party Trusts, as issuers of ABCP, experienced difficulty in accessing the liquidity required to repay maturing ABCP debt. OPG's original exposure to third-party ABCP notes was $103 million. Of that total, $45 million consisted of notes held with Skeena Capital Trust ("Skeena"). In December 2007, OPG received payment of approximately $44 million against these notes and recognized an impairment loss of $1 million. The settlement amount represented 98.65 per cent of the original investment including interest up to the maturity date.

Following the settlement of investments in Skeena, OPG's holdings of third-party ABCP was reduced to $58 million. On December 23, 2007, a restructuring plan was announced for the remaining third-party ABCP Trusts. Documentation of the restructuring plan for these Trusts is expected in March 2008. Approval for any restructuring is required by note holders representing not less than 66 and two-thirds of the value of the Trusts.

OPG performed a valuation analysis as at December 31, 2007 to assess the amount of any impairment, taking into account the limited information available. The assessment considered the likelihood of achieving a successful restructuring based on the current proposal announced on December 23, 2007. OPG used a probability weighted cash flow model to determine the fair value of its third-party ABCP holdings. Since the majority of OPG's remaining ABCP is made up of combined traditional and synthetic assets such as Collateralized Debt Obligations ("CDO's"), the recoverability was estimated to be 85 per cent. An insignificant amount of OPG's remaining ABCP is made up of ineligible assets, where the underlying assets or the collateral provided is supported by United States ("U.S.") sub-prime assets. The recoverability of these ineligible assets was estimated to be 70 per cent. OPG also considered alternative methods to assess the fair value of the investments. As a result of the analysis, OPG recorded an impairment loss of $9 million against the remaining holdings of $58 million, in addition to the $1 million loss related to the Skeena investments. The impairment loss is included in other gains and losses.

OPG reviewed the classification of its third-party ABCP holdings and has determined that a long-term classification is appropriate, based on the restructuring information available. OPG will continue to monitor developments with respect to ABCP and will continue to assess its position.

OPG has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any material adverse impact on its operations as a result of this current third-party ABCP liquidity issue.

Climate Change Plan

In June 2007, aggressive targets to reduce greenhouse gas emissions were introduced by the Province as part of the Province's climate change plan. Among other initiatives, the plan identified a target reduction of greenhouse gases to six per cent below 1990 levels by 2014. In August 2007, the Province finalized a regulation that commits to end the use of coal to generate electricity at OPG's coal-fired generating stations by December 31, 2014.

The Federal Government, in April 2007, also announced targets for reducing both greenhouse gases and air pollutants from 2006 levels. Under the Federal proposal, OPG would be required to reduce its intensity levels of greenhouse gas emissions from its fossil-fuelled generating stations from 2006 levels by 18 per cent in 2010, with an eventual reduction of 28 per cent by 2015. The Federal Government has delayed the regulation of air pollutants until the spring of 2008, and expects to have the greenhouse gas framework finalized by the end of 2008.

Lennox Generating Station

The Lennox generating station operated under an RMR contract approved by the OEB for the period beginning on October 1, 2006 to September 30, 2007. The IESO has concluded that all four units at the Lennox generating station continue to be required for the purpose of reliability, and recommended that all four units be covered by an RMR contract for the period from October 1, 2007 to September 30, 2008. An RMR contract with the IESO for the period from October 1, 2007 to September 30, 2008 was approved by the OEB in December 2007.

Vision, Core Business and Strategy

OPG's mandate is to cost effectively produce electricity from its diversified generating assets, while operating in a safe, open and environmentally responsible manner. To achieve its mandate, OPG is focused on four corporate strategies: improving the performance of its generating assets; increasing its generating capacity; achieving financial sustainability; and achieving excellence in corporate governance, safety, social responsibility, corporate citizenship and environmental stewardship.

Improving the Performance of Generating Assets

Nuclear Generating Assets

OPG's strategic objective with respect to its nuclear generating assets is to operate the Darlington, and Pickering A and B nuclear generating stations in a safe, efficient and cost effective manner, while undertaking prudent investments to improve their reliability and operating performance. To achieve this objective, programs and initiatives have been implemented that will continue to: improve safety performance; reduce generation interruptions through improvements in equipment reliability; increase generation through improved planning and execution of maintenance outages; mitigate technological risks through comprehensive inspection and testing programs; and address longer term human resource and demographic issues. These initiatives, combined with ongoing cost control efforts, are expected to result in lower production unit energy costs.

Nuclear safety is a major driver of maintenance expenditures. Nuclear inspection and testing programs are largely driven by maintenance governance requirements designed to ensure that equipment is fit for service and performs as expected. This enables OPG to satisfy regulatory requirements that the stations are safe to operate, and that nuclear safety is not compromised.

OPG is transitioning from maintenance programs designed to improve the condition of equipment to initiatives aimed at increasing the reliability of generation and the predictability of performance. OPG plans to perform major scheduled maintenance over the next three years, including vacuum building outages at both the Darlington and Pickering stations. In addition, ongoing maintenance work including inspection and cleaning of steam generators, and the servicing of pumps, valves and other equipment or components will continue in accordance with life cycle maintenance work plans.

OPG is focused on reducing maintenance backlogs to improve equipment reliability. The initiative to reduce corrective maintenance backlogs to industry levels was successful in 2007. In addition, by year end, the Darlington and Pickering A stations had achieved significant reductions in elective maintenance backlogs compared to 2006.

OPG is focused on reducing the number and length of planned outages to increase generation time. The planned outage schedule at the Darlington station has moved to a three-year cycle from a two-year cycle. The Pickering stations remain on a two-year planned outage schedule. The reduction in outage duration targeted at the nuclear stations reflects ongoing and new programs aimed at improving the planning, execution, monitoring and reporting of outage work.

In 2007, OPG also implemented hiring and training programs to improve employee performance and promote leadership development, while addressing demographic and developmental issues.

Pickering A Units 2 and 3 Safe Storage Project

As a result of OPG's decision in 2005 that the return to service of Units 2 and 3 at the Pickering A nuclear station could not be justified on a commercial basis, an initiative is underway to place these units in a safe state for the remaining life of the station and an additional 30-year period prior to dismantlement. The project includes isolating Units 2 and 3 from the rest of the generating station, redesigning the control room for the remaining two operating units, and de-watering and de-fuelling the units.

The initial cost estimate of the project was approximately $270 million, with completion targeted for 2009. In the third quarter of 2007, the Canadian Nuclear Safety Commission ("CNSC") concluded that an Environmental Assessment ("EA") was necessary for certain parts of the Units 2 and 3 safe storage project. As a result, certain planned work has been suspended pending completion of the EA. It is estimated that as a result of the EA requirement, completion of the safe storage project will be delayed by approximately 14 months. The total project cost will be increased by approximately $40 million, including costs for the continued monitoring of the units in their current state.

Refurbishment Projects

Work is proceeding on the feasibility study to refurbish the Pickering B nuclear generating station. This work includes an assessment of the plant condition, an EA, and an Integrated Safety Review. Work to complete the EA and Integrated Safety Review is continuing and has extended the time frame required to define the scope of the refurbishment project and complete a comprehensive assessment. As a result, OPG plans to make a recommendation regarding the feasibility of this project to its Board of Directors in early 2009.

OPG plans to begin a feasibility study on the refurbishment of the Darlington nuclear generating station commencing in 2008.

Hydroelectric Generating Assets

OPG's strategic objective with respect to its existing hydroelectric generating assets is to improve production in a cost effective and efficient manner. Programs and initiatives are underway to replace aging equipment such as turbines, generators and transformers. OPG plans to increase the capacity of existing stations by 53 MW over the next five years by replacing existing turbine runners with more efficient equipment. The replacement of control equipment will also improve efficiency and accommodate market dispatch requirements. Aging civil structures will be repaired, rehabilitated or replaced. The hydroelectric generating assets achieved an availability of 94 per cent in 2007, which is the best performance in 23 years. OPG plans to maintain high reliability levels as measured by availability factors in excess of 90 per cent and an equivalent forced outage rate of less than two per cent.

The hydroelectric business segment is strengthening its relationships with First Nations and local communities. In 2007, a number of ceremonies recognizing the settlement of past grievances were held with First Nations.

OPG is meeting the demographic challenges faced by its hydroelectric business unit by training staff to perform new roles and by hiring new staff. OPG mentors these new employees in safe work practices and technical skills to ensure continuing performance improvements.

Fossil-Fuelled Generating Assets

OPG's strategic objective with respect to its fossil-fuelled generating assets is to maintain the productive capability of its coal-fired generating facilities for as long as they are required, while continuing to operate in compliance with all applicable environmental laws and emission regulations. OPG's fossil-fuelled generating stations perform as intermediate and peaking facilities, which results in many frequent starts and stops of the units. Maintenance programs have been implemented to mitigate the unfavourable impacts of these starts and stops on equipment.

The reliability of OPG's fossil-fuelled stations has continued to improve. During 2007, the reliability of OPG's fossil-fuelled generating assets as measured by equivalent forced outage rates, was the best since 2000. This level of reliability is expected to be maintained over the next few years. Improved reliability in 2007 also resulted in less corrective maintenance work, which had a positive impact on maintenance expenses.

OPG's Unregulated – Fossil-Fuelled business segment has more than 1,500 employees. During the past two years, approximately 20 per cent of employees have been replaced in order to manage the effects of an aging workforce. The majority of the new hires were external recruits. OPG provides in-house technical training to assist staff with their new roles, and to adopt safe work practices.

A focus on maintenance, environmental and recruitment programs will enable the continued operation of the coal-fired generating stations for as long as they are required.

Increasing OPG's Generating Capacity

OPG's strategy with respect to increasing its generating capacity is to expand, develop, and/or improve its hydroelectric generating capacity by expanding and redeveloping its existing sites, as well as pursuing new projects where feasible. In addition, OPG, in consultation with its shareholder, plans to explore and develop, where feasible, natural gas and nuclear opportunities in Ontario. OPG will undertake these investments on its own or through partnerships. OPG is currently involved in the following hydroelectric, natural gas and nuclear generation projects.

Niagara Tunnel

The Niagara tunnel project will increase the amount of water flowing to existing turbines at OPG's Sir Adam Beck generating stations in Niagara Falls, allowing the stations to more effectively utilize available water. Upon the completion of the 10.4 km tunnel, the average annual generation from the Sir Adam Beck generating stations is expected to increase by approximately 1.6 TWh.

At December 31, 2007, the tunnel boring machine had advanced 1,609 metres. The progress of the tunnel boring machine by the design-build contractor through a fractured rock formation has been slower than expected. Considerable uncertainty remains with respect to the schedule until the tunnel boring machine advances sufficiently beyond the St. David's gorge to approximately 2,300 metres, and establishes consistent tunneling performance.

The contract structure places the onus on the contractor to mitigate schedule delays, and includes liquidated damages provisions for failure to meet the contractual in-service date.

Based on the information provided by the contractor, the in-service date of the tunnel will be delayed. To mitigate the impact of the schedule delay, the contractor is investigating alternatives, including the realignment of the tunnel. The estimated in-service date will be dependent on the alternative selected by the contractor. Considerable uncertainty remains with respect to the schedule for any of the contractor's alternatives until the tunnel boring machine has advanced beyond the St. David's gorge.

There is a potential that the schedule delay could impact the project cost. The project cost estimate of $985 million will be reviewed in conjunction with any changes to the project completion schedule and a review of actual subsurface rock conditions compared to those that were anticipated as part of the design-build contract.

The capital project expenditures for 2007 were $60 million and life-to-date capital expenditures were $303 million. The project is debt financed through the Ontario Electricity Financial Corporation ("OEFC").

Lac Seul

OPG is constructing a new 12.5 MW hydroelectric generating station on the English River. The new Lac Seul generating station will utilize a majority of the spill currently passing the existing Ear Falls generating station, thus increasing the overall efficiency, capacity and energy generated from this location. A design-build contract was awarded and construction started during the first quarter of 2006. In accordance with the contractor's original schedule, the project was expected to be in-service in the fourth quarter of 2007. However, the contractor has advised OPG that the project is now expected to be in-service in the third quarter of 2008. The program delays are a result of various difficulties, including the replacement of the major subcontractor on two occasions.

The design-build contract includes liquidated damages terms to mitigate, among other things, the impact of any project delay. OPG is deducting applicable liquidated damages from amounts otherwise payable to the contractor for the late in-service date.

At year end 2007, the powerhouse was substantially complete. Turbine/generator components have been installed and unit alignment has begun. Auxiliary systems, station service, heating and lighting are substantially complete. Concrete work at the intake area is continuing. Life-to-date expenditures are $41 million. Total project costs are expected to be $47 million. The project is financed through the OEFC.

Lower Mattagami

In May 2006, OPG provided development alternatives to the Province to increase the generating capacity of four hydroelectric generating stations on the Lower Mattagami River. The incremental capacity associated with these alternatives ranged from approximately 140 MW to 450 MW. The Minister of Energy subsequently directed OPG to proceed with the definition phase for a 450 MW development which includes the replacement of the Smoky Falls generating station and the expansion of the Little Long, Harmon and Kipling generating stations, all of which are located on the Lower Mattagami River.

Following discussions with the Canadian Environmental Assessment Agency ("CEAA"), it was determined that a comprehensive study process must be followed under CEAA regulations. A scoping document for this process has been posted on the CEAA website for public comment.

OPG is engaged in consultations with First Nations stakeholders regarding an agreement to address past issues and establish a new commercial relationship.

Small Hydroelectric Projects

In December 2007, OPG's Board of Directors approved the redevelopment of four existing hydroelectric generation stations that are at the end of their useful lives and would otherwise be removed from service in the near future. Three of the generating stations are on the Upper Mattagami River (Wawaitin, Sandy Falls and Lower Sturgeon) and the fourth (Hound Chute) is located on the Montreal River.

Due to their similar size and geographic proximity, the redevelopments are being combined as one project under one design-build contract. Upon completion of the project, the total installed capacity of the four stations will increase from 23 MW to 44 MW, and the annual energy will increase from 134 gigawatt hours ("GWh") to 223 GWh. The total approved project cost is approximately $300 million with project completion planned for the second quarter of 2011. The project is expected to be financed through third-party project financing.

In December 2007, OPG commenced a 6.4 MW expansion of the existing Healey Falls generating station on the Trent-Severn Waterway that will result in additional energy production of 25 GWh per year. The total approved project cost is $22 million with project completion planned for mid-2010.

Hydroelectric Projects Directive

In December 20, 2007, the Minister of Energy issued a directive to the OPA to negotiate HESA with OPG for the following hydroelectric development projects: Lac Seul, Upper Mattagami, Hound Chute, Healey Falls, and Lower Mattagami. The final review of the Lac Seul HESA was completed in January 2008 and the agreement was executed. The directive indicated that the negotiation and execution of the remaining agreements should be completed in the first half of 2008.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd., through the Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle generating station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 per cent ownership interest in the joint venture.

Construction of the generating station started in 2006 and it is expected to be operational in a simple cycle mode with a capacity of up to 340 MW by June 1, 2008. The simple cycle mode will only operate as needed during the summer of 2008, after which the generating station will be taken out of service to enable construction to be completed on the combined cycle mode. During 2007, construction progress included substantial work on the pumphouse, assembly of generator step-up transformers, erection of gas compressor building steel, and completion of the steam turbine generator pedestal.

The plant is expected to be completed and fully operational in the second quarter of 2009, providing up to 550 MW of power in a combined cycle mode. Project costs are expected to be within the approved budget, which is $730 million excluding capitalized interest. A significant proportion of this capital cost relates to an engineer-procure-construct contract to construct the facility.

OPG's share of capital expenditures for 2007 was $176 million. OPG's share of the life-to-date capital expenditures was $273 million. OPG's share of the project is debt financed through the OEFC.

Lakeview Site

OPG is continuing with the decommissioning and demolition of the Lakeview coal-fired generating station, having closed the station in 2005 after more than 40 years of service. OPG is exploring the potential development of a gas-fuelled electricity generating station at the site. Construction of a new plant would proceed only after the required approvals and the completion of a clean energy supply agreement.

New Nuclear Generating Units

As directed by the Minister of Energy in June 2006, OPG initiated a federal approvals process in September 2006 by filing an Application for a Site Preparation Licence with the CNSC for new nuclear generating units at the Darlington nuclear generating site.

During the first quarter of 2007, OPG proceeded with initiatives in support of an EA for new nuclear units at the Darlington site that included studies relating to geology, distribution and movements of groundwater and aquifers, archeology and terrestrial. During the second quarter of 2007, OPG continued to the second step in the federal approvals process by filing a Project Description to be used by the CNSC to determine the type of EA that is required.

In January 2008, the CNSC recommended to the Federal Minister of Environment that the project be referred to a panel review, which is the highest level of review under current legislation. The Minister's decision on the recommendation is pending. Planning for new nuclear generating units at OPG's Darlington nuclear generating site continues.

OPG and Bruce Power jointly undertook to assess the potential nuclear technologies, which might be deployed in Ontario. Technologies under review include existing, evolutionary and new designs. This assessment will provide the Province with a generator's perspective to be considered in its global examination of nuclear reactor technologies.

Achieving Financial Sustainability

With respect to its strategic financial objectives, OPG's mandate, as agreed with its Shareholder, states that: as an Ontario Business Corporations Act corporation with a commercial mandate, OPG will operate on a financially sustainable basis and maintain the value of its assets for its shareholder, the Province. In addition, as a transition to a sustainable financial model, any significant new generation project approved by OPG's Board of Directors and agreed to or directed by the Shareholder, may receive financial support from the Province, if and as appropriate.

OPG's financial priority, operating as a commercial enterprise, is to achieve a sustainable level of financial performance. Inherent in this priority are the objectives of: earning an appropriate return on OPG's regulated assets; receiving equitable treatment for production from unregulated assets; identifying and exploiting efficiency improvement opportunities; and ensuring that sufficient funds are available to achieve OPG's strategic objectives of improving the performance of its generating assets and increasing its generating capacity. OPG has employed a number of strategies to achieve a level of sustainable financial performance.

OPG's ability to increase its revenues is constrained as it receives regulated prices for electricity produced from its nuclear generating stations and most of its baseload hydroelectric generating stations. To address this constraint, OPG filed an application with the OEB in November 2007, for new payment amounts for its regulated facilities effective April 1, 2008, for a 21-month period. OPG will seek a rate of return consistent with the scope and type of business risks associated with reliably operating and responsibly increasing production from its regulated assets. OPG revenues are also constrained by a revenue limit on the majority of the output from its other generating assets. This limit was established in April 2006, and will cease on April 30, 2009.

OPG is focused on implementing effective cost management initiatives to identify and exploit opportunities to improve efficiency. In 2007, OPG undertook a review of its support function activities to further optimize the management of available resources.

To the extent that additional funds, beyond those generated from operations, are required, OPG seeks agreement with its Shareholder on options to ensure that adequate financing resources are available to fund ongoing operational requirements and new generation development. OPG will continue to seek opportunities to diversify its sources of funding and increase its access to cost effective capital. By ensuring access to cost effective funding and maintaining its investment grade credit ratings, OPG will ensure its status as a long-term, commercially viable investment.

Excellence in Corporate Governance, Safety, Social Responsibility, Corporate Citizenship and Environmental Stewardship

Another of OPG's strategic objectives is to operate in accordance with the highest corporate standards, including, but not limited to, the areas of corporate governance, safety, and sustainable development.

Corporate Governance

OPG's corporate governance strategy is to continually improve the policies and procedures used to direct and manage the corporation. OPG continues to implement initiatives that are consistent with Ontario Securities Commission ("OSC") regulatory requirements in order to enhance its corporate governance practices. A description of OPG's corporate governance structure is described in the *Corporate Governance* section.

OPG's Board of Directors consists of a majority of independent directors with substantial capability in managing and restructuring large businesses, managing and operating nuclear stations, managing capital intensive companies, and overseeing regulatory, government and public relations. The Board has established a number of committees to focus on areas critical to the success of the Company. The Board develops governance principles for OPG that are consistent with high standards of corporate governance and annually reviews OPG's system of corporate governance with a view to maintaining these standards.

Safety

OPG is committed to achieving excellence in employee and public safety through: continuous improvement in its safety management systems and risk control programs; and a corporate commitment to achieving the goal of zero injuries in the workplace. Continuous oversight and reporting provides management with information on the effectiveness of safety management initiatives, compliance with legal and corporate requirements, and safety performance trends. Oversight activities include internal and external safety management system audits, work protection code audits, and specific operational safety risk reviews. OPG also has a rigorous incident management system, which requires that all incidents including near misses be reported and investigated, as appropriate, and that corrective action plans are developed to prevent reoccurrences.

OPG's safety culture is rooted in the belief that zero injuries can be a reality. This culture is supported through initiatives that address safety issues related to young and new employees. Also, a contractor management program ensures that contractors contribute to OPG's strong safety culture, and that they maintain a level of safety equivalent to that of employees.

OPG measures its safety performance primarily through two performance indicators – Accident Severity Rate ("ASR") and All Injury Rate ("AIR"). The ASR is a measure of the number of days lost due to injuries. In 2007, OPG experienced 1.56 days lost per 200,000 hours worked compared to 5.87 in 2006. The AIR provides a measure of the frequency of injuries resulting in lost time or requiring medical treatment. In 2007, OPG experienced 1.12 injuries per 200,000 hours worked compared to 1.30 in 2006. OPG's 2007 ASR and AIR improved significantly compared to 2006 and is the best performance that the Company has achieved since its inception in 1999. This improvement can be attributed to visible leadership and commitment to safety, a strong safety culture where employees take personal responsibility for safety, effective safety management systems with targeted risk mitigation strategies, and robust return to work strategies for injured workers.

Safety performance at OPG's nuclear generating stations improved in 2007. The Pickering A station completed two million hours of work without a loss time accident, and the Pickering B and Darlington stations completed over three million hours of work without a loss time accident.

In 2007, the hydroelectric business segment achieved two years without a lost time accident. Certain hydroelectric plant groups have achieved significant safety milestones, including some that have worked more than 10 years without a lost time accident.

The fossil-fuelled business unit experienced exceptional safety performance in 2007. Certain stations achieved significant safety milestones, including the Thunder Bay generating station that has worked 10 years without a lost time accident, and the Lennox generating station that has worked five years without a lost time accident.

A commitment to public safety is also an important part of the operation of OPG's generating stations. OPG works to increase public awareness that dams, hydroelectric generating stations and surrounding waterways are unsafe places for recreation. An independent review of the Company's public safety systems was conducted by a panel of international experts who concluded that OPG's practices relative to other jurisdictions are a leading example for other hydroelectric organizations and dam owners.

Sustainable Development

OPG is committed to continuous improvement in its sustainable development performance, including both environmental stewardship and social responsibility. This commitment is supported by the Provincial Government's Memorandum of Agreement with OPG, which mandates OPG to operate in accordance with the highest corporate standards of environmental stewardship as well as social responsibility and corporate citizenship.

Environmental Stewardship

OPG's Environmental Policy states that "OPG will strive to continually improve its environmental performance." This policy further commits OPG to meet all legal requirements and voluntary commitments, with the objective of exceeding those standards where appropriate and feasible. Other goals include integrating environmental factors into business planning and decision-making, and maintaining environmental management systems.

To achieve the goal of continuous improvement in environmental performance, each year OPG sets key performance targets, which are tracked and managed through the ISO 14001 (2004) Environmental Management System. These efforts are reinforced by an annual incentive plan that links management's compensation to meeting or surpassing internally established environmental targets. Targets are established for a wide spectrum of environmental indicators, including spills; air emissions inclusive of Nitrogen Oxides ("NO_x") and Sulphur Dioxide ("SO_2") emissions; regulatory infractions; energy efficiency improvements; and reductions in waste generated.

To achieve further improvements in OPG's greenhouse gas emissions, OPG launched its Greenhouse Gas Management Plan in 2007. The plan focuses on: improving the energy efficiency of OPG's facilities, the use of biofuels as a partial replacement for coal, researching the impact of climate change on OPG's operations, expanding the tree planting effort through OPG's extensive biodiversity program, and an education program for employees.

OPG manages air emissions of NO_x and SO_2 through the installation of specialized equipment such as scrubbers, low NO_x burners, and selective catalytic reduction equipment. OPG also purchases low sulphur fuel and utilizes a regulatory approved emissions trading program to manage emission levels within regulatory limits. The Province has directed the OPA to develop a plan to phase out coal-fired generation in the earliest possible timeframe, with the assurance that there is an adequate supply of electricity during the phase-out period. In order to ensure that coal-fired facilities are available to generate electricity within environmental regulatory requirements, OPG continues to implement emissions control strategies, including improvements to equipment. OPG will operate its coal-fired generating stations in accordance with all regulatory requirements and will implement continuous improvement measures that are consistent with the remaining in-service requirements for these stations.

OPG monitors emissions into the air and water and regularly reports the results to regulators that include the Ministry of the Environment, Environment Canada and the CNSC. The public also receives ongoing communications regarding OPG's environmental performance. OPG has developed and implemented internal monitoring, assessment, and reporting programs to manage environmental risks such as air and water emissions, discharges, spills, the treatment of radioactive emissions, and radioactive wastes. OPG also continues to address historical land contamination through its voluntary land assessment and remediation program.

OPG's environmental performance for 2007 met, or was better than target, regarding major spills (Category A), major infractions, and tritium and C-14 emissions. OPG also maintained its ISO 14001 certification for its corporate level EMS and all of its generating stations. OPG did not meet its target for intermediate spills (Level B), and the NO_x emission rate for Lennox GS (oil and gas) was slightly in excess of target. Acid gas (SO_2 and NO_x) emissions were 139.5 gigagrams (Gg) in 2007 compared to 118.1 Gg in 2006. The increase in emissions was primarily a result of increased generation from the fossil facilities.

OPG began a program to test the burning of biomass fuel on selected units at its fossil-fuelled generating stations. The Atikokan generating station was also used by Ontario's Bio-Energy Research Centre to conduct and assess bio-energy initiatives.

Social Responsibility and Corporate Citizenship

Contributing to the quality of life in communities where companies operate is a corporate responsibility as well as a societal expectation. OPG is committed to being a good corporate citizen by strengthening relationships with the communities that host OPG's generating facilities. At the corporate level, as well as through the actions of employees, OPG plays a significant role in local communities by donating time and resources. OPG's Corporate Citizenship Program provides financial and in-kind support to registered charities and not-for-profit environmental, educational and community organizations whose initiatives both reflect OPG's values and help build better communities. OPG employees also strive through multiple Corporate and personal initiatives to help make local communities better places to live.

OPG is committed to openness and transparency in its reporting to the broader community. This includes distributing operational and financial reports that are prepared in a manner that users can easily understand, as well as making these reports available on our website, opg.com.

Capability to Deliver Results

Generating Assets

OPG continues to implement specific initiatives to improve the reliability and predictability of each nuclear generating station. These initiatives are designed to address the specific technology requirements, operational experience, and mitigate risks. The Darlington nuclear generating station is transitioning to a three-year outage cycle to take advantage of the physical condition of the plant, the availability of backup systems, and the ability to refuel during operations. The Pickering B nuclear generating station will continue to focus on making targeted improvements in reliability.

OPG has increased the productive capacity of its hydroelectric stations, extended their service lives and invested significant capital to replace aging equipment, upgrade runners, increase station automation, and enhance maintenance practices. Programs are in place to further improve the efficiency and availability of existing hydroelectric stations.

OPG will continue to maintain the reliability and productive capacity of its coal-fired generating stations until their scheduled closure dates.

OPG has a number of potential sites for new generating asset development in Ontario. The completion of the decommissioning activity at OPG's Lakeview generating station will provide a brownfield site with the potential for development of additional generating capacity in the Greater Toronto Area.

In addition to the discussion in this section, OPG's capability to deliver results is affected by factors discussed in the *Risk Management* section.

Skilled Workforce

As of December 31, 2007, OPG had approximately 11,700 regular employees. OPG's employees have considerable technical experience in operating and maintaining the Company's generating stations. Due to an aging workforce, OPG's challenge is to attract and retain a skilled workforce to replace retiring employees. Approximately 36 per cent of OPG's workforce was over the age of 50 at December 31, 2007. OPG has initiated a comprehensive resource and succession planning program to address demographic issues related to a high percentage of employees that are eligible for retirement over the next five years and staffing issues associated with the closure of the coal-fired generating stations.

The Company's collective agreement with the Power Workers' Union runs through March 31, 2009 and the labour agreement with The Society of Energy Professionals runs through December 31, 2010. As of December 31, 2007, the Company had approximately 90 per cent of its regular labour force represented by collective bargaining agreements.

Ontario Electricity Market Trends

In its 18-Month Outlook published in December 2007, the IESO indicated that Ontario's installed electricity generating capacity was 31,214 MW. OPG's in-service electricity generating capacity at the end of 2007 was 22,158 MW or 71 per cent of Ontario's capacity. The expected peak electricity demand in the summer of 2008, under normal weather conditions and prior to the impacts of targeted conservation, is forecast by the IESO to be 25,929 MW. The IESO expects energy demand in 2008 to grow by 1.1 per cent over the 2007 energy demand to 153.6 TWh. The Outlook report attributes this growth to the impact of economic and demographic growth offset by planned conservation measures. The IESO reported that over the next 18 months, the outlook for Ontario's supply/demand balance remains generally positive under a normal weather scenario. Over the next 18 months, more than 4,600 MW of new supply is scheduled to come into service. The new supply during this period includes 3,000 MW of gas-fired generation, 800 MW of nuclear generation, 100 MW of hydroelectric generation and approximately 700 MW of wind generation. This represents the highest amount of additional capacity in an 18-Month Outlook period since the Ontario electricity market began.

In the Ontario Reliability Outlook published in December 2007, the IESO identified the industry's need to shift the focus to ensuring that the new supply is implemented in time to meet Ontario's needs, as well as addressing the integration and operational challenges of a complex and changing generation mix.

The Ontario spot electricity market price is influenced by changes the United States dollar ("USD") to Canadian dollar exchange rate. Fuel prices are also affected by the USD to Canadian dollar exchange rate and the underlying commodity price. Both the spot electricity market price and fuel prices can have a significant impact on OPG's revenue and gross margin. Uranium spot market prices have increased significantly since 2003. The increase in the price of uranium is driven by a number of factors that are expected to persist, supporting higher prices for a number of years. Any significant impact on OPG's fuel costs has been mitigated by the drawing down of inventories purchased at lower prices. However, fuel costs for nuclear operations are expected to be significantly higher in the near future. During the fourth quarter of 2007, market prices for natural gas increased by approximately five per cent and coal prices increased over 10 per cent compared to market prices in the same period of 2006. The outlook for gas prices remains volatile, although the longer term trend is stabilizing in the futures markets. Coal futures have increased recently as a result of tight global markets and may remain high until various supply constraints and demand pressures are overcome. With the Federal Government's proposed EcoAction regulations, emission credit costs associated with the use of fossil fuels in the electricity sector could increase after 2009.

In August 2007, the OPA filed its proposed 20-year plan for Ontario, the Integrated Power System Plan ("IPSP"), with the OEB for approval. The OPA is required by regulation to develop and submit an IPSP that covers a period of 20 years from the date of its submission and to develop and submit an updated 20-year plan every three years thereafter. The OEB will review the IPSP and assess whether it is consistent with government directives, complies with the IPSP Regulation, and is prudent and cost effective. The plan's estimated $60 billion capital cost would be directed toward conservation initiatives, new renewable generation including hydroelectric facilities, refurbishment or replacement of nuclear generation for baseload capacity, natural gas-fired generation for intermediate and peaking uses, and the transmission capacity required to deliver the electricity to Ontario consumers. The plan also calls for the phase-out of coal-fired electricity generation by the end of 2014.

Business Segments

OPG has four reportable business segments. The business segments are Regulated – Nuclear, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Fossil-Fuelled.

OPG has entered into various energy and related sales contracts with its customers to hedge commodity price exposure to changes in electricity prices associated with the spot market for electricity in Ontario. Contracts that are designated as hedges of OPG's generation revenues are included in the Unregulated – Hydroelectric and Unregulated – Fossil-Fuelled generation segments. Gains or losses from these hedging transactions are recognized in revenue over the terms of the contract when the underlying transaction occurs.

Regulated – Nuclear Segment

OPG's Regulated – Nuclear business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that it owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations. This business segment also includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This arrangement includes lease revenue and revenue from engineering analysis and design, technical and other services. Revenue is also earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control/reactive support.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of the Company's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earnedthrough offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

The Unregulated – Fossil-Fuelled business segment operates in Ontario, generating and selling electricity from its fossil-fuelled generating stations, which are not subject to rate regulation. The Unregulated – Fossil-Fuelled business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support and automatic generation control, and revenues from other services.

Other

The Other category includes revenue that OPG earns from its 50 per cent joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses. In addition, the Other category includes revenue from real estate rentals.

Key Generation and Financial Performance Indicators

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost effectiveness, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in this section and are discussed in the *Discussion of Operating Results by Business Segment* section.

Nuclear Unit Capability Factor

OPG's nuclear stations operate as baseload facilities as they have low marginal costs and are not designed for fluctuating production levels to meet peaking demand. The nuclear unit capability factor is a key measure of nuclear station performance. It is the amount of energy that the unit(s) generated over a period of time, adjusted for externally imposed constraints such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation. Capability factors are primarily affected by planned and unplanned outages. Capability factors by industry definition exclude grid-related unavailability.

Fossil-Fuelled and Hydroelectric Equivalent Forced Outage Rate ("EFOR")

OPG's fossil-fuelled stations provide a flexible source of energy and operate as baseload, intermediate and peaking facilities, depending on the characteristics of the particular stations. OPG's hydroelectric stations operate primarily as baseload facilities and provide a reliable and low-cost source of renewable energy. A key measure of the reliability of the fossil-fuelled and hydroelectric generating stations is the proportion of time they are available to produce electricity when required. EFOR is an index of the reliability of the generating unit measured by the ratio of time a generating unit is forced out of service, including any forced deratings, compared to the amount of time the generating unit was available to operate.

Hydroelectric Availability

Hydroelectric availability is a measure of the reliability of a hydroelectric generating unit represented by the percentage of time the generating unit is capable of providing service, whether or not it is actually in-service, compared to the total time for a respective period.

Nuclear Production Unit Energy Cost ("PUEC")

Nuclear PUEC is used to measure the operations-related costs of production of OPG's nuclear generating assets. Nuclear PUEC is defined as nuclear fuel, OM&A expenses including allocated corporate costs, and variable costs related to used fuel disposal and storage and the disposal of low and intermediate level radioactive waste materials, divided by nuclear electricity generation.

Hydroelectric OM&A Expense per MWh

Hydroelectric OM&A expense per MWh is used to measure the cost effectiveness of the hydroelectric generating stations. It is defined as total hydroelectric OM&A expenses, including allocated corporate costs, divided by hydroelectric electricity generation.

Fossil-Fuelled OM&A Expense per MW

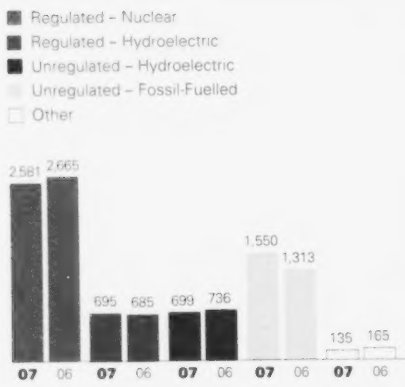
Since fossil-fuelled generating stations are primarily employed during periods of intermediate and peak demand, the cost effectiveness of these stations is measured by their annualized OM&A expenses for the period, including allocated corporate costs, divided by total station nameplate capacity.

Other Key Indicators

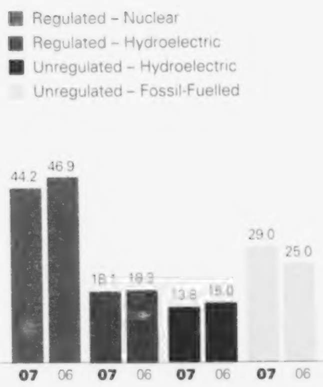
In addition to performance and cost effectiveness indicators, OPG has identified certain environmental indicators. These indicators are discussed under the heading *Risk Management*.

Years Ended December 31

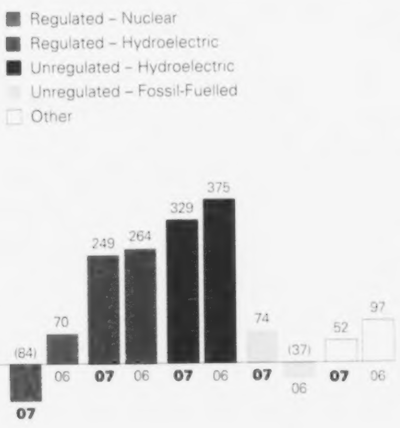
Revenue, Net of Revenue Limit Rebate by Segment
(millions of dollars)



Electricity Generation by Segment
(TWh)



(Loss) Income Before Interest, and Income Taxes by Segment
(millions of dollars)



Discussion of Operating Results by Business Segment

This section summarizes OPG's key results by segment for the years ended December 31, 2007 and 2006. The following table provides a summary of revenue, earnings and key generation and financial performance indicators by business segment:

(millions of dollars)	**2007**	2006
Revenue, net of revenue limit rebate		
Regulated – Nuclear	**2,581**	2,665
Regulated – Hydroelectric	**695**	685
Unregulated – Hydroelectric	**699**	736
Unregulated – Fossil-Fuelled	**1,550**	1,313
Other	**135**	165
	5,660	5,564
(Loss) income before interest and income taxes		
Regulated – Nuclear	**(84)**	70
Regulated – Hydroelectric	**249**	264
Unregulated – Hydroelectric	**329**	375
Unregulated – Fossil-Fuelled	**74**	(37)
Other	**52**	97
	620	769
Electricity Generation (TWh)		
Regulated – Nuclear	**44.2**	46.9
Regulated – Hydroelectric	**18.1**	18.3
Unregulated – Hydroelectric	**13.8**	15.0
Unregulated – Fossil-Fuelled	**29.0**	25.0
Total electricity generation	**105.1**	105.2
Nuclear unit capability factor (per cent)		
Darlington	**89.5**	88.7
Pickering A	**41.3**	72.0
Pickering B	**75.0**	75.2
Equivalent forced outage rate (per cent)		
Regulated – Hydroelectric	**1.8**	1.5
Unregulated – Hydroelectric	**1.5**	1.9
Unregulated – Fossil-Fuelled	**11.5**	14.1
Availability (per cent)		
Regulated – Hydroelectric	**94.1**	94.2
Unregulated – Hydroelectric	**93.9**	92.4
Nuclear PUEC ($/MWh)	**47.18**	42.87
Regulated – Hydroelectric OM&A expense per MWh ($/MWh)	**5.30**	5.03
Unregulated – Hydroelectric OM&A expense per MWh ($/MWh)	**13.33**	11.27
Unregulated – Fossil-Fuelled OM&A expense per MW ($000/MW)	**66.8**	61.1

Regulated – Nuclear Segment

(millions of dollars)	**2007**	2006
Revenue	**2,581**	2,665
Fuel expense	**133**	122
Gross margin	**2,448**	2,543
Operations, maintenance and administration	**2,061**	1,942
Depreciation and amortization	**426**	368
Accretion on fixed asset removal and nuclear waste management liabilities	**499**	490
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(481)**	(371)
Property and capital taxes	**31**	44
(Loss) income before other gains and losses, interest and income taxes	**(88)**	70
Other (gains) and losses	**(4)**	–
(Loss) income before interest and income taxes	**(84)**	70

Revenue

(millions of dollars)	**2007**	2006
Regulated generation sales	**2,179**	2,312
Variance account	**–**	1
Other	**402**	352
Total revenue	**2,581**	2,665

Regulated – Nuclear revenue was $2,581 million for the year ended December 31, 2007 compared to $2,665 million in 2006. The decrease in revenue was primarily due to lower electricity generation of 2.7 TWh compared to 2006, partially offset by an increase in non-electricity generation revenue from nuclear technical services provided to external parties.

Electricity Prices

Electricity generation from stations in the Regulated – Nuclear segment received a fixed price of 4.95¢/kWh since the introduction of rate regulation effective April 1, 2005.

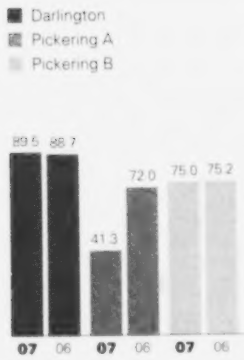
Volume

Electricity generation from stations in the Regulated – Nuclear segment for the year ended December 31, 2007 was 44.2 TWh compared to 46.9 TWh in 2006. The decrease in electricity generation of 2.7 TWh was partly due to the shutdown of the Pickering A nuclear generating station Units 1 and 4 in early June 2007 to perform modifications on a backup electrical system. This system provides a redundant electrical connection for the Pickering A nuclear generating station from the Pickering B nuclear generating station. A strict safety protocol dictated that Units 1 and 4 remain off-line during the completion of the modifications to the backup electrical system. This modification was completed in September 2007. Unit 4 of the Pickering A nuclear generating station was restarted in October 2007. Unit 1 entered a planned outage and was restarted in early January 2008.

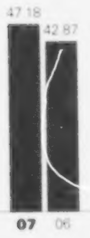
Nuclear generation for 2007 was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection. In addition, nuclear generation decreased as a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generating station.

Years Ended December 31

Nuclear Unit Capability Factor
(%)



Nuclear PUEC
($/MWh)



This outage was caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. OPG is currently pursuing the recovery of lost revenue and incremental costs as a result of this matter. In February 2008, OPG received an interim partial payment of $10 million related to the claim.

The impact of the lower generation from the Pickering A and the Pickering B nuclear generating stations during 2007 was partially offset by continued strong performance at the Darlington nuclear generating station. For the year ended December 31, 2007, the nuclear unit capability factor for the Darlington nuclear generating station was 89.5 per cent compared to 88.7 per cent in 2006.

The nuclear unit capability factor for the Pickering A nuclear generating station was 41.3 per cent in 2007 compared to 72.0 per cent in 2006. The decrease was primarily due to significantly higher outage days due to the shutdown of Units 1 and 4 to perform modifications to the backup electrical system and as a result of the component failure during inspection during the first quarter of 2007.

For 2007, the Pickering B nuclear generating station's nuclear unit capability factor was 75.0 per cent compared to 75.2 per cent in 2006. The decrease was primarily due to higher unplanned outage days related to the release of resin into the demineralized water system during the first quarter of 2007.

The output of Units 1 and 4 at the Pickering A nuclear generating station is currently restricted to 96 per cent of full power rating. This restriction has been imposed by the CNSC pending further review and disposition of a reactor physics assessment. The restriction on Unit 4 came into effect in October 2007 and on Unit 1 in January 2008. OPG expects the restriction will remain in force for the balance of 2008. Management has undertaken further technical evaluations and is pursing a resolution with the CNSC.

Fuel Expense

Fuel expense for the year ended December 31, 2007 was $133 million compared to $122 million in 2006. The increase in fuel expense was primarily due to higher uranium prices compared to the same period in 2006, partially offset by the impact of lower generation.

Operations, Maintenance and Administration

OM&A expenses were $2,061 million for the year ended December 31, 2007 compared to $1,942 million in 2006. The increase in OM&A expenses was primarily due to higher outage expenditures, higher costs related to the increase in nuclear technical services provided to external parties, and higher pension and OPEB costs, partially offset by reduced expenditures on nuclear project work.

Based on the amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007, OPG recorded a regulatory asset of $27 million related to non-capital costs for nuclear generation development initiatives during 2007.

Nuclear PUEC for the year ended December 31, 2007 was $47.18/MWh compared to $42.87/MWh during 2006. The increase was primarily due to higher maintenance and outage expenditures and lower generation volume.

Depreciation and Amortization

Depreciation and amortization expense for the year ended December 31, 2007 was $426 million compared to $368 million in 2006. The increase in depreciation and amortization expense was primarily due to the amortization of the Pickering A return to service deferral account. The amortization of the Pickering A return to service deferral account was $96 million for 2007 compared to $25 million in 2006. The amortization expense is consistent with the method of recovery of the deferred costs included in regulated prices.

At December 31, 2006, OPG increased the estimate of the present value of the asset retirement obligation for nuclear fixed asset removal and nuclear waste management by $1,386 million, based on an approved reference plan in accordance with the terms of the ONFA (the "2006 Approved Reference Plan"). Asset retirement costs are capitalized by increasing the carrying value of the related fixed assets. As a result, OPG recorded an increase in the carrying value of the nuclear fixed assets of $1,386 million at December 31, 2006. For the year ended December 31, 2007, OPG recognized additional depreciation expense of $56 million related to this increase. The increase in depreciation expense was largely offset by the impact of establishing a deferral account, effective January 1, 2007, related to the change in the liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Accretion

Accretion expense for the year ended December 31, 2007 was $499 million compared to $490 million in 2006. The increase was due to the higher nuclear fixed asset removal and nuclear waste management liability compared to 2006 primarily as a result of the increase in the present value of the liability due to the passage of time. For the year ended December 31, 2007, OPG recorded additional accretion expense related to the increase in the estimate of the liability recorded on December 31, 2006. This increase in accretion expense was largely offset by the impact of establishing the deferral account effective January 1, 2007 relating to the change in estimate of the liabilities, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Earnings on the Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Earnings from the Nuclear Funds for the year ended December 31, 2007 were $481 million compared to $371 million in 2006, an increase of $110 million. This increase was primarily due to a higher asset base in 2007, a higher Ontario CPI in 2007 compared to 2006, which impacted the guaranteed return on the Used Fuel Fund, and the reimbursement from the Decommissioning Fund for expenditures related to the safe storage of Pickering A Units 2 and 3 of $46 million. Under the ONFA, the Province guarantees the rate of return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario CPI.

The increase in earnings from the Nuclear Funds was partially offset by a lower rate of return in the Decommissioning Fund in 2007 of 5.15 per cent compared to 5.75 per cent in 2006, as a result of changes in the ONFA 2006 Approved Reference Plan, approved in December 2006. Upon termination of the ONFA, the Province has a right to any funding in the Decommissioning Fund in excess of the estimated completion costs. Accordingly, the value of the investments recorded in the Decommissioning Fund is limited to the cost estimate of the related liability. When the Decommissioning Fund is overfunded, the earnings are capped at the rate of growth of the liability for the estimated completion costs under ONFA.

The assets in the Decommissioning Fund are invested primarily in publicly traded fixed income and equity investments. As a result, the value of these investments is subject to volatility in the capital markets. The volatility of the returns on these investments has increased over the past few months, which has resulted in a negative impact on the fair value and the funding status of the Decommissioning Fund. During the period January 1, 2008 to February 26, 2008, the fair value decreased by approximately two per cent, which resulted in a loss of approximately $100 million. The Decommissioning Fund has been designed to meet long-term liability requirements, and, therefore, short-term market variations are inevitable.

The Used Fuel Fund is also subject to the volatility of the capital markets. However, for the Used Fuel Fund, the Province guarantees the rate of return on the fund for the first 2.23 million used fuel bundles.

Regulated – Hydroelectric Segment

(millions of dollars)	**2007**	2006
Revenue	**695**	685
Fuel expense	**244**	245
Gross margin	**451**	440
Operations, maintenance and administration	**123**	92
Depreciation and amortization	**68**	66
Property and capital taxes	**11**	18
Income before interest and income taxes	**249**	264

Revenue

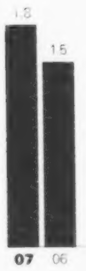
(millions of dollars)	**2007**	2006
Regulated generation sales[1]	**635**	635
Variance accounts	**15**	(4)
Other	**45**	54
Total revenue	**695**	685

[1] Regulated generation sales included revenue of $158 million and $169 million that OPG received at the Ontario electricity spot market price for generation over 1,900 MWh in any hour during the years ended December 31, 2007 and 2006, respectively.

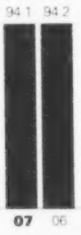
Regulated – Hydroelectric revenue was $695 million for the year ended December 31, 2007 compared to $685 million in 2006, an increase of $10 million. The increase in revenue was primarily due to higher revenue recorded as a result of regulatory variance accounts, partially offset by the impact of the lower generation volume.

Years Ended December 31

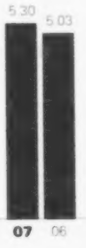
Regulated – Hydroelectric EFOR
(%)



Regulated – Hydroelectric Availability
(%)



Regulated – Hydroelectric OM&A per MWh
($/MWh)



Electricity Prices

For the years ended December 31, 2007 and 2006, the average electricity sales price for the Regulated – Hydroelectric segment was 3.5¢/kWh. The average sales price is based on the fixed price of 3.3¢/kWh for generation up to 1,900 MWh in any hour, and the spot electricity market price for generation above this level.

Volume

For the year ended December 31, 2007, electricity sales volume was 18.1 TWh compared to 18.3 TWh in 2006. The decrease in electricity sales volume in 2007 was primarily due to lower water levels in Eastern Ontario during the fourth quarter of 2007 compared to the same period in 2006. For the year ended December 31, 2007, volume related to production levels above 1,900 MWh in any hour was 3.3 TWh compared to 3.4 TWh for 2006.

For the years ended December 31, 2007 and 2006, the EFOR for the Regulated – Hydroelectric stations was 1.8 per cent and 1.5 per cent, respectively. The availability for the Regulated – Hydroelectric stations was 94.1 per cent in 2007 compared to 94.2 per cent in 2006. The low EFOR and high availability reflect the continuing strong performance of the Regulated – Hydroelectric stations.

Variance Accounts

OPG is required under a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to establish variance accounts for the Regulated – Hydroelectric segment to capture the impact of differences in hydroelectric electricity production due to differences between forecast and actual water conditions and differences between forecast and actual ancillary service revenue. For the years ended December 31, 2007 and 2006, OPG recorded revenue of $15 million and a reduction in revenue of $4 million, respectively, primarily as a result of the difference in actual water conditions and ancillary services revenue compared to the forecast provided to the Province for the purpose of establishing regulated prices.

Fuel Expense

OPG pays charges to the Province and the OEFC on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are classified as fuel expense. Fuel expense for the years ended December 31, 2007 and 2006 was $244 million and $245 million, respectively.

Operations, Maintenance and Administration

OM&A expenses for the year ended December 31, 2007 were $123 million compared to $92 million in 2006. The increase in OM&A expenses in 2007 was primarily due to an increase in expense related to past grievances by First Nations.

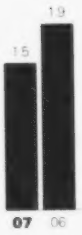
OM&A expense per MWh for the regulated hydroelectric stations increased to $5.30/MWh in 2007 compared to $5.03/MWh in 2006. OM&A expense per MWh excludes expenses related to past grievances by First Nations.

Depreciation and Amortization

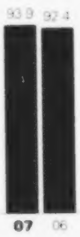
Depreciation expense for the year ended December 31, 2007 was $68 million compared to $66 million in 2006.

Years Ended December 31

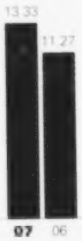
Unregulated – Hydroelectric EFOR
(%)



Unregulated – Hydroelectric Availability
(%)



Unregulated – Hydroelectric OM&A per MWh
($/MWh)



Unregulated – Hydroelectric Segment

(millions of dollars)	2007	2006
Revenue, net of revenue limit rebate	**699**	736
Fuel expense	**81**	88
Gross margin	**618**	648
Operations, maintenance and administration	**207**	189
Depreciation and amortization	**68**	69
Property and capital taxes	**10**	15
Income before other gains and losses, interest and income taxes	**333**	375
Other (gains) and losses	**4**	–
Income before interest and income taxes	**329**	375

Revenue

(millions of dollars)	2007	2006
Spot market sales, net of hedging instruments	**725**	746
Revenue limit rebate	**(64)**	(44)
Other	**38**	34
Total revenue	**699**	736

Unregulated – Hydroelectric revenue was $699 million for the year ended December 31, 2007 compared to $736 million in 2006. The decrease in revenue of $37 million during the year ended December 31, 2007 compared to 2006 was primarily due to a lower generation volume of 1.2 TWh, partially offset by higher prices.

Electricity Prices

After taking into account the revenue limit rebate, OPG's average sales price for its unregulated hydroelectric generation for the years ended December 31, 2007 and 2006 was 4.7¢/kWh and 4.6¢/kWh, respectively.

Volume

Electricity sales volume for the year ended December 31, 2007 was 13.8 TWh compared to 15.0 TWh in 2006. The decrease in volume in 2007 was primarily due to lower water levels in Northwestern Ontario during the first two quarters and in Eastern Ontario during the fourth quarter of 2007, compared to the same periods in 2006.

The EFOR for the Unregulated – Hydroelectric stations was 1.5 per cent in the year ended December 31, 2007 compared to 1.9 per cent in 2006. The decrease in EFOR was due to improved equipment performance.

The availability for the Unregulated – Hydroelectric stations was 93.9 per cent for the year ended December 31, 2007 compared to 92.4 per cent for the year ended December 31, 2006. The high availability reflects the continuing strong performance of the Unregulated – Hydroelectric stations due to the continuing investment program.

Fuel Expense

Generating stations within this segment are subject to the GRC. Fuel expense was $81 million for the year ended December 31, 2007 compared to $88 million during 2006. The decrease in fuel expense was primarily due to lower generation volume.

Operations, Maintenance and Administration

OM&A expenses for the year ended December 31, 2007 and 2006 were $207 million and $189 million, respectively. The increase in OM&A expenses in 2007 compared to 2006 was primarily due to higher expenses for plant improvement initiatives.

OM&A expense per MWh for the unregulated hydroelectric stations was $13.33/MWh for the year ended December 31, 2007 compared to $11.27/MWh in 2006. The increase in 2007 compared to 2006 reflects higher expenses for plant improvement initiatives.

OM&A expense per MWh excludes expense related to past grievances by First Nations.

Depreciation and Amortization

Depreciation expense for the year ended December 31, 2007 was $68 million compared to $69 million in 2006.

Unregulated – Fossil-Fuelled Segment

(millions of dollars)	2007	2006
Revenue, net of revenue limit rebate	**1,550**	1,313
Fuel expense	**812**	643
Gross margin	**738**	670
Operations, maintenance and administration	**573**	524
Depreciation and amortization	**82**	133
Accretion on fixed asset removal liabilities	**8**	9
Property and capital taxes	**21**	19
Income (loss) before other gains and losses, interest and income taxes	**54**	(15)
Other (gains) and losses	**(20)**	22
Income (loss) before interest and income taxes	**74**	(37)

Revenue

(millions of dollars)	2007	2006
Spot market sales, net of hedging instruments	**1,590**	1,323
Revenue limit rebate	**(163)**	(117)
Other	**123**	107
Total revenue	**1,550**	1,313

Unregulated – Fossil-Fuelled revenue was $1,550 million for the year ended December 31, 2007, an increase of $237 million compared to $1,313 million in 2006. The increase in revenue in 2007 compared to 2006 was primarily due to higher electricity generation of 4.0 TWh.

Electricity Prices

OPG's average sales price net of the revenue limit rebate for its unregulated fossil-fuelled generation for the years ended December 31, 2007 and 2006 was 4.8¢/kWh.

The increase in revenue was also due to higher revenue related to the Lennox RMR contract. In 2007, OPG recorded revenue of $85 million related to the recovery of costs compared to $59 million in 2006. The higher revenue recognized was primarily due to the timing in which OEB approval was issued for the current and prior year contracts. The RMR contract for the period from October 1, 2007 to September 30, 2008 was approved by the OEB in December 2007. The prior year contract, which was effective October 1, 2006, was approved by the OEB in January 2007. As a result, revenue in 2007 included revenue for the period from October 1, 2006 to December 31, 2007.

Volume

Electricity sales volume for 2007 was 29.0 TWh compared to 25.0 TWh during 2006. The increase of 4.0 TWh was primarily due to the lower generation from the nuclear and hydroelectric generating stations.

The EFOR for the Unregulated – Fossil-Fuelled stations for the year ended December 31, 2007 was 11.5 per cent compared to 14.1 per cent in 2006. The lower EFOR in 2007 compared to 2006 was primarily due to much improved performance at the Nanticoke generating station, and continued good performance at the Lennox generating station.

Fuel Expense

Fuel expense was $812 million for the year ended December 31, 2007 compared to $643 million in 2006. The increase in fuel expense in 2007 compared to 2006 was primarily due to higher electricity generation.

Operations, Maintenance and Administration

OM&A expenses for the year ended December 31, 2007 were $573 million compared to $524 million in 2006. The increase of $49 million was primarily due to increased maintenance programs and projects related to the extended period over which the coal-fired generating stations will be required to operate, partially offset by the write-off of unrecoverable costs in 2006 related to the cancellation of the Thunder Bay generating station gas conversion project.

Annualized OM&A expense per MW ($/MW) for the unregulated fossil-fuelled stations increased to $66,800/MW for the year ended December 31, 2007 compared to $61,100/MW for the year ended December 31, 2006. The increase primarily reflected the impact of the higher OM&A expenses related to the extension of service lives of the coal-fired generating stations.

Depreciation and Amortization

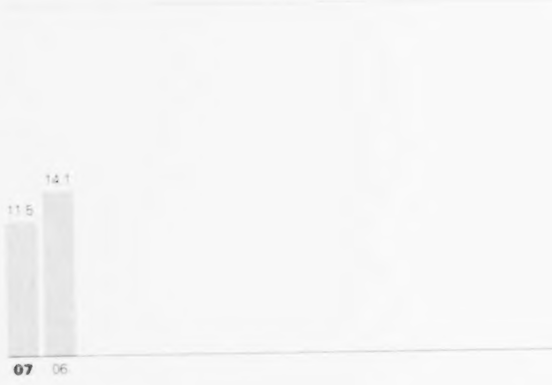
Depreciation expense for the year ended December 31, 2007 was $82 million compared to $133 million in 2006. The decrease in depreciation expense in 2007 was mainly due to the extension of the service life of all coal-fired generating stations, for purposes of calculating depreciation, due to the delay in the Province's coal replacement program announced by the Ministry of Energy in June 2006. OPG will continue to assess the service lives of the coal-fired stations.

Other Gains and Losses

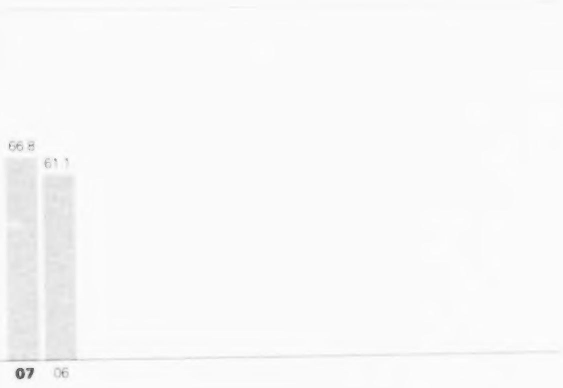
In 2007, the Company recorded a recovery of $20 million to reflect a change in the estimated costs required to complete decommissioning of the Lakeview generating station. The demolition of the Lakeview generating station was substantially completed during the year.

Years Ended December 31

Unregulated –
Fossil-Fuelled
EFOR
(%)



Unregulated –
Fossil-Fuelled
OM&A per MW
($000/MW)



OPG recognized an impairment loss on the Thunder Bay and Atikokan coal-fired generating stations in 2006 of $22 million, which represented the carrying amount or net book value of these stations. OPG tested the recoverability of the carrying amounts of the coal-fired stations as a result of changes in circumstance, which included a decrease in forecast Ontario spot market prices and the extension of the lives of the coal-fired stations. The fair value of the coal-fired generating stations, which was determined using a discounted cash flow method, was compared to the carrying value of the generating assets to determine the impairment loss. It was determined that the Thunder Bay and Atikokan coal-fired generating stations would not be able to recover their operating and capital expenditures and carrying amount, over their remaining service lives.

Other

(millions of dollars)	**2007**	2006
Revenue	**135**	165
Operations, maintenance and administration	**10**	5
Depreciation and amortization	**51**	53
Property and capital taxes	**12**	10
Income before other gains and losses, interest and income taxes	**62**	97
Other (gains) and losses	**10**	–
Income before interest and income taxes	**52**	97

Other revenue for the year ended December 31, 2007 was $135 million compared to $165 million in 2006. The decrease of $30 million was primarily due to significantly lower net trading revenue, partly offset by an increase in investment income from OPG's equity investments.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment held within the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2007, the service fee was $33 million for Regulated – Nuclear, $2 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric, $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $50 million for the Other category. For the year ended December 31, 2006, the service fee was $30 million for Regulated – Nuclear, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric, $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $48 million for the Other category.

Interconnected markets purchases and sales (including those to be physically settled) and mark-to-market gains and losses (realized and unrealized) on energy trading contracts are disclosed on a net basis in the consolidated statements of income. If disclosed on a gross basis, revenue and power purchases for the year ended December 31, 2007 would have increased by $120 million (December 31, 2006 – $163 million).

The changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in Other revenue, and are carried on the audited annual consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 13 in the audited annual consolidated financial statements as at and for the year ended December 31, 2007.

Net Interest Expense

The net interest expense for 2007 was $143 million compared to $193 million for 2006. The decrease in net interest expense in 2007 compared to 2006 was primarily due to the deferral of additional interest expense related to the Pickering A return to service deferral account as required by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario).

Income Taxes

OPG follows the liability method of tax accounting for its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

For the year ended December 31, 2007, there was a net income tax recovery of $51 million, compared to a tax expense of $86 million for 2006. The decrease in income tax expense was largely due to an additional contribution of $334 million to the Nuclear Funds in 2007. Contributions are deductible for tax purposes and no offsetting future tax expense is recognized by OPG due to the use of the taxes payable method to account for income taxes in the regulated segment. In addition, the income tax expense was favourably impacted by a reduction in Federal future income tax rates that were substantively enacted in 2007.

During the years ended December 31, 2007 and 2006, the income tax expense was lower than what would otherwise have been recorded had OPG accounted for income tax for the regulated segment using the liability method by $127 million and $89 million, respectively.

The transition adjustment to the accumulated other comprehensive income on adoption of the financial instruments accounting standards was lower by $4 million than what would otherwise have been recorded had OPG utilized the liability method of tax accounting for the regulated segments.

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors ("Tax Auditors") with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit are unique to OPG and relate either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the Electricity Act, 1998. Although OPG has subsequently resolved some of these issues, there is uncertainty as to how the remaining issues will be resolved. OPG expects to receive a reassessment for its 1999 taxation year. The Company would defend its position through the tax appeals process.

OPG has previously recorded income tax charges related to certain income tax positions that the Company has taken in prior years that may be disallowed. Given the uncertainty as to how these income tax matters will be resolved, OPG has not adjusted its income tax liabilities. Should the ultimate outcome differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its net income could be materially affected either negatively or positively in the period in which the matters are resolved.

Liquidity and Capital Resources

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing and credit facilities provided by OPG's shareholder. These sources are utilized for continued investment in plant and technologies, and to meet other significant funding obligations including contributions to the pension fund, the Used Fuel and Decommissioning Funds, and to service and repay long-term debt and revenue limit rebate obligations.

	Years Ended December 31	
(millions of dollars)	**2007**	2006
Cash and cash equivalents, beginning of year	**6**	908
Cash flow provided by operating activities	**407**	397
Cash flow (used in) investing activities	**(782)**	(650)
Cash flow provided by (used in) financing activities	**479**	(649)
Net increase (decrease)	**104**	(902)
Cash and cash equivalents, end of year	**110**	6

Operating Activities
Cash flow provided by operating activities for 2007 was $407 million compared to cash flow provided by operating activities of $397 million for 2006. The increase in cash flow was primarily due to lower revenue limit rebate payments, the increase in non-electricity generation revenue, and the higher reimbursement of expenditures from the Nuclear Funds associated with the safe storage of Units 2 and 3 at the Pickering A nuclear generating station. The increase in cash flow was partially offset by the one-time contribution of $334 million to the Used Fuel Fund as required by the ONFA, relating to the Bruce Lease, higher operating and maintenance expenditures, and a decrease in cash receipts from electricity sales. The lower revenue limit rebate payments for 2007 compared to 2006 were a result of making a payment of $739 million in the second quarter of 2006 related to the period from April 1, 2005 to December 31, 2005. Revenue limit rebate payments are now made on a quarterly basis.

Investing Activities
OPG is in a capital-intensive business that requires continued investment in plant and technologies to improve operating efficiencies, increase generating capacity of its existing stations, invest in new generating stations and to maintain and improve service, reliability, safety and environmental performance.

Investment in fixed assets during the year ended December 31, 2007 was $666 million compared with $637 million in 2006. The increase in capital expenditures was primarily due to higher investments in the Portlands Energy Centre and fossil-fuelled and nuclear facilities, partially offset by lower investment in the Niagara Tunnel project.

OPG's forecast capital expenditures for 2008 are approximately $800 million, which include amounts for the Niagara Tunnel, Portlands Energy Centre and other development projects.

For the year ended December 31, 2007, investing activities included costs deferred as regulatory assets of $58 million compared to $13 million during the same period in 2006. The amount deferred as regulatory assets during 2007 included interest expense related to the Pickering A return to service deferral account, and non-capital costs incurred for nuclear generation development initiatives.

At December 31, 2007, OPG reclassified its remaining holdings of third-party ABCP notes in the amount of $58 million to long-term investments. A discussion of OPG's exposure to the ABCP notes is included in the *Recent Developments* section.

Financing Activities

OPG maintains a $1 billion revolving committed bank credit facility which is divided into two tranches – a $500 million 364-day term tranche maturing May 21, 2008 and a $500 million five-year term tranche maturing May 22, 2012. The longer term tranche was extended from a three-year term to a five-year term, upon renewal of the bank credit facility in May 2007. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2007, no commercial paper was outstanding (2006 – $15 million). OPG had no other outstanding borrowings under the bank credit facility.

OPG also maintains $25 million (2006 – $26 million) in short-term uncommitted overdraft facilities and $238 million (2006 – $240 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. At December 31, 2007, there was a total of $205 million of Letters of Credit issued (2006 – $185 million), which included $175 million for the supplementary pension plans (2006 – $159 million) and $16 million related to the construction of the Portlands Energy Centre (2006 – $16 million).

OPG negotiated an agreement with the OEFC to finance the Niagara Tunnel project for up to $1 billion over the duration of the project. The funding is advanced in the form of 10-year notes, on commercial terms and conditions. Advances under this facility commenced in October 2006, and amounted to $240 million as at December 31, 2007, including $80 million of new borrowing during 2007. Similarly, debt financing has been negotiated with the OEFC for OPG's interest in the Portlands Energy Centre and the Lac Seul project for up to $400 million and $50 million, respectively. Advances under these facilities commenced in December 2006, and totalled $210 million for the Portlands Energy Centre and $20 million for the Lac Seul project as at December 31, 2007. This included $120 million of new borrowing under the Portlands Energy Centre facility during the year ended December 31, 2007.

As at December 31, 2007, OPG's long-term debt outstanding with the OEFC was $3.7 billion. Although the new financing added in 2006 and 2007 has extended the maturity profile, approximately $2.5 billion of long-term debt must be repaid or refinanced within the next five years. To ensure that adequate financing resources are available beyond its $1 billion commercial paper program backed by the bank credit facility, OPG reached an agreement with the OEFC for a $500 million general corporate facility that is available for the period from June 1, 2007 to March 31, 2008. OPG also reached an agreement with the OEFC for a $950 million credit agreement to refinance senior notes as they mature over the period from September 22, 2007 to September 22, 2009.

In June 2007 and December 2007, OPG issued $100 million and $400 million, respectively, under the general corporate facility. In September 2007, OPG met its debt retirement obligation by issuing $200 million of notes under the $950 million credit facility to refinance the maturing notes. These borrowings will mature in 2017.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2007, are as follows:

(millions of dollars)	2008	2009	2010	2011	2012	Thereafter	**Total**
Contractual obligations:							
Fuel supply agreements	694	417	325	258	219	374	**2,287**
Contributions under the ONFA[1]	454	350	350	317	308	1,239	**3,018**
Long–term debt repayment	400	350	970	375	400	1,170	**3,665**
Interest on long–term debt	201	183	152	103	75	288	**1,002**
Unconditional purchase obligations	18	17	16	12	13	174	**250**
Long–term accounts payable	9	–	–	–	–	–	**9**
Operating lease obligations	12	12	13	13	13	2	**65**
Operating licence	20	19	21	22	22	–	**104**
Pension contributions[2]	260	–	–	–	–	–	**260**
Other	33	31	34	32	18	42	**190**
	2,101	1,379	1,881	1,132	1,068	3,289	**10,850**
Significant commercial commitments:							
Niagara Tunnel	146	258	34	–	–	–	**438**
Other hydroelectric projects	48	8	1	–	–	–	**57**
Portlands Energy Centre	59	5	3	3	3	46	**119**
Total	2,354	1,650	1,919	1,135	1,071	3,335	**11,464**

[1] Contributions under the ONFA are subject to adjustment due to the ONFA 2006 Approved Reference Plan.

[2] The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2005. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2008 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The pension contributions are subject to change as a result of the filing of the actuarial valuation in 2008.

Credit Ratings

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. The cost and availability of financing is influenced by credit ratings, which are intended to be an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets.

At December 2007, OPG has a long-term credit rating of BBB+ by Standard & Poor's ("S&P") and 'A (low)' by Dominion Bond Rating Service ("DBRS"). In November 2007, DBRS confirmed the Unsecured Debt and Commercial Paper ratings of OPG as A (low) and R1 (low), respectively, with stable trends.

Balance Sheet Highlights

The following section provides highlights of OPG's audited consolidated financial position using selected balance sheet data:

Selected balance sheet data	As at December 31	
(millions of dollars)	**2007**	2006
Assets		
Accounts receivable	**315**	230
Property, plant and equipment – net	**12,777**	12,761
Nuclear fixed asset removal and nuclear waste management funds	**9,263**	7,594
Regulatory assets	**356**	251
Long-term investments	**93**	32
Liabilities		
Accounts payable and accrued charges	**953**	989
Revenue limit rebate payable	**100**	40
Long-term debt (including debt due within one year)	**3,853**	3,359
Fixed asset removal and nuclear waste management	**10,957**	10,520

Accounts Receivable

As at December 31, 2007, accounts receivable were $315 million compared to $230 million as at December 31, 2006. The increase of $85 million was primarily due to higher electricity generation volumes in December 2007 compared to December 2006.

Property, Plant and Equipment – Net

Net property, plant and equipment as at December 31, 2007 and December 31, 2006 was $12,777 million and $12,761 million, respectively. The increase was primarily due to additions to fixed assets mostly offset by depreciation expense. The Pickering B nuclear generating station auxiliary power system project was a significant addition to in-service fixed assets during the year ended December 31, 2007.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

OPG is responsible for the ongoing long-term management of radioactive waste materials and used fuel resulting from operations and future decommissioning of its nuclear generating stations. OPG's obligations relate to the Pickering and Darlington nuclear generating stations that are operated by OPG, as well as the Bruce A and B nuclear generating stations that are leased by OPG to Bruce Power.

To fund these liabilities, OPG established and manages, jointly with the Province, a Used Fuel Fund and a Decommissioning Fund, which are funded by OPG in accordance with the ONFA. The Used Fuel Fund is primarily intended to fund future expenditures associated with the long-term management of highly radioactive used nuclear fuel bundles. The Decommissioning Fund was established to fund future expenditures associated with nuclear fixed asset removal and the long-term management of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third-party custodial and trustee accounts that are segregated from the rest of OPG's assets.

Assets in the Nuclear Funds are invested in fixed income and equity securities. The Nuclear Funds are referred to as the nuclear fixed asset removal and nuclear waste management funds in OPG's consolidated financial statements. Until December 31, 2006, OPG recorded the assets in the Nuclear Funds as long-term investments at their amortized cost. Up to and including December 31, 2006, gains and losses were recognized only upon the sale of an underlying security. As such, any unrealized gains and losses associated with the investments in the Nuclear Funds were not recognized in OPG's consolidated financial statements. As at December 31, 2006, the value of the Nuclear Funds on an amortized cost basis was $7,594 million.

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA reference plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA reference plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning

Fund earns less than its target rate of return or in the event that a new ONFA reference plan is approved with a higher estimated decommissioning liability.

At December 31, 2006, based on the estimate of costs to complete under the 2006 Approved Reference Plan, the Decommissioning Fund was overfunded on a fair value basis, and underfunded on an amortized cost basis. As a result of the adoption of the financial instruments accounting standards on January 1, 2007, OPG adjusted the investments and the related payables in the Decommissioning Fund to fair value, and recorded a transition adjustment of $519 million to increase opening retained earnings. Subsequently, the investments and the related payables in the Decommissioning Fund are measured at fair value and any changes to the fair values are recognized in income.

After the adjustment to reflect the investments at fair value, on January 1, 2007, the value of the investments in the Decommissioning Fund exceeded the estimated completion costs under the 2006 Approved Reference Plan, and accordingly, the Decommissioning Fund balance was reduced by the amount of the excess funding through the recording of a payable to the Province. The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 per cent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

At December 31, 2007, the Decommissioning Fund's asset value on a fair value basis was $5,075 million, which continued to exceed the value of the liability as per the 2006 Approved Reference Plan. As a result of the overfunded status, OPG reported a payable to the Province of $3 million, reflecting an amount due to the Province if the Decommissioning Fund were terminated under the ONFA. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA reference plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent to be treated as a contribution to the Used Fuel Fund, and the OEFC is entitled to a distribution of an equal amount.

Used Fuel Fund

Under the ONFA, the Province guarantees the annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario CPI ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

Up until December 31, 2006, OPG accounted for the investments in the Used Fuel Fund on an amortized cost basis, with the amount due to or due from the Province being recorded in the consolidated financial statements as the difference between the committed return and the actual return based on realized returns. At December 31, 2006, the Used Fuel Fund included an amount due to the Province of $100 million. The Used Fuel Fund's asset value, after taking into account the committed return and the amount due to the Province, was $3,238 million at December 31, 2006.

Under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 per cent compared to the value of the associated liabilities.

Commencing January 1, 2007, the value of the investments held in the Used Fuel Fund is measured at fair value. Accordingly, the Used Fuel Fund's balance increased to $3,876 million to reflect the fair value measurement. The Province guarantees OPG's annual return in the Used Fuel Fund related to the initial 2.23 million used fuel bundles at the committed return, such that any difference between the committed return and the actual return based on fair value would be offset by the change in the related payable or receivable to the Province in the Used Fuel Fund. As a result, OPG did not record a transition adjustment to opening retained earnings for the Used Fuel Fund.

As at December 31, 2007, the Used Fuel Fund asset value on a fair value basis was $4,702 million. The asset value was offset by a payable to the Province of $511 million related to the committed return adjustment.

Regulatory Assets

As at December 31, 2007, regulatory assets were $356 million compared to $251 million as at December 31, 2006. In accordance with the amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario), for the year ended December 31, 2007, OPG recorded $131 million in the deferral account related to the increase in OPG's liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management arising from the 2006 Approved Reference Plan. The recognition of the regulatory asset for this deferral account reduced additional expenses resulting from the increase in the nuclear liabilities. These expenses included accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets. During the year ended December 31, 2007, OPG also deferred $28 million of non-capital costs, including $1 million of interest, incurred for nuclear generation development initiatives in accordance with the regulation.

The increase in the regulatory assets was partially offset by the reduction in the balance of the Pickering A return to service deferral account due to amortization expense of $96 million during the year ended December 31, 2007. The impact of the amortization related to the Pickering A return to service deferral account was partly offset by the deferral of $30 million of interest expense related to the balance in the deferral account as prescribed by the amended regulation.

Long-Term Investments

Long-term investments as at December 31, 2007 were $93 million compared to $32 million as at December 31, 2006. The increase was primarily due to the reclassification to long-term investments of OPG's holding of third-party ABCP.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at December 31, 2007 were $953 million compared to $989 million as at December 31, 2006. The decrease was primarily due to changes in timing of expenditures and payments between 2007 and 2006.

Revenue Limit Rebate Payable

The revenue limit rebate payable as at December 31, 2007 was $100 million compared to $40 million as at December 31, 2006. The increase was due primarily to higher Ontario spot market prices during the fourth quarter of 2007, compared to the same period in 2006.

Long-Term Debt (including debt due within one year)

Long-term debt as at December 31, 2007 was $3,853 million compared to $3,359 million as at December 31, 2006. The increase was primarily due to the issuance of long-term debt of $200 million under the credit agreement to refinance senior notes, $200 million related to committed capital projects, and $500 million under the general corporate facility. The increase was largely offset by repayment of long-term debt of $406 million.

Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal (for nuclear and fossil-fuelled generating stations) and nuclear waste management as at December 31, 2007 was $10,957 million compared to $10,520 million as at December 31, 2006. The increase was primarily due to accretion due to the passage of time, partially offset by expenditures on nuclear waste management activities.

Accumulated Other Comprehensive Income

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3865 – *Hedges*, and recognized hedging instruments designated as cash flow hedges in opening AOCI on a net of tax basis. At the same time, the fair value of the hedging instruments was recorded in OPG's audited annual consolidated balance sheets. Subsequent adjustments arising due to these hedging instruments are also recognized in AOCI on a net of tax basis. Prior to January 1, 2007, hedging instruments that qualified for hedge accounting were not carried at fair value on the consolidated balance sheets and were disclosed as off-balance sheet items.

The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in income upon settlement of the underlying transactions. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity. Foreign exchange derivative instruments are used to hedge the exposure to anticipated USD denominated purchases. Interest rate derivative contracts are used to hedge exposure to changes in market interest rates on variable debt and on debt expected to be issued in the future. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income. As at December 31, 2007, OPG reported AOCI of $17 million.

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under Canadian GAAP, are either not recorded in the Company's consolidated financial statements or are recorded in the Company's consolidated financial statements in amounts that differ from the full contract amounts. Principal off-balance sheet activities that OPG undertakes include securitization of certain accounts receivable agreements, guarantees, which provide financial or performance assurance to third parties on behalf of certain subsidiaries, and long-term fixed price contracts.

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. The independent trust is not controlled by OPG, nor is OPG the primary beneficiary. As such, the results of the trust are not consolidated. The securitization provides OPG with an opportunity to obtain an alternative source of cost effective funding. For the year ended December 31, 2007 and 2006, the average all-in cost of funds was 5.1 per cent and 4.4 per cent, respectively, and the pre-tax charges on sales to the trust were $15 million and $13 million, respectively. The current securitization agreement extends to August 2009. Refer to Note 4 of OPG's 2007 annual audited consolidated financial statements for additional information.

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries and joint ventures. Such agreements include guarantees, stand-by Letters of Credit and surety bonds.

Hedging Instruments Prior to the Adoption of the Financial Instruments Standards

Prior to the adoption of the financial instruments standards on January 1, 2007, derivative instruments that were designated as hedges were excluded from the audited consolidated financial statements. Such instruments were recognized upon settlement when the underlying transactions occurred. As at December 31, 2006, the deferred gain on such hedging instruments was $41 million.

Critical Accounting Policies and Estimates

OPG's significant accounting policies, including the impact of future accounting pronouncements, are outlined in Note 3 to the audited annual consolidated financial statements as at and for the year ended December 31, 2007. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect OPG's consolidated financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted below.

Rate Regulated Accounting

A regulation made pursuant to the *Electricity Restructuring Act, 2004* (Ontario) prescribes that most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates receive regulated prices for their output. Under this regulation, OPG is required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005, that are associated with the planned return to service of all units at the Pickering A nuclear generating station. As at December 31, 2007, the deferral account balance was $183 million, consisting of non-capital costs of $232 million related to Unit 1, $19 million related to Units 2 and 3, $20 million of general return to service non-capital costs and interest of $37 million applied at the annual rate of six per cent, as prescribed by the regulation, and net of accumulated amortization of $125 million. As at December 31, 2006, the deferral account balance was $249 million, consisting of non-capital costs of $232 million related to Unit 1, $19 million related to Units 2 and 3, $20 million of general return to service non-capital costs and interest of $7 million applied at the annual rate of six per cent, and net of accumulated amortization of $29 million. OPG commenced the amortization of the deferral account when Unit 1 of the Pickering A nuclear generating station was returned to service in November 2005. The amortization of $96 million was charged to depreciation and amortization expense in 2007 (2006 – $25 million). Upon OPG becoming subject to regulated prices established by the OEB, which is expected in 2008, the OEB is directed by the regulation to ensure that OPG recovers any balance in the deferral account through future prices charged to customers on a straight-line basis, over a period not to exceed 15 years.

In addition, under the regulation, OPG is required to establish a variance account to record certain costs incurred and revenues earned or foregone on or after April 1, 2005, due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices, associated with a number of predefined circumstances. Under the terms of the regulation, the OEB is directed to ensure that OPG either recovers or returns those amounts through future regulated prices charged to customers over a period not to exceed three years, to the extent that the OEB is satisfied that the costs were prudently incurred and are accurately recorded. As at December 31, 2007, OPG reported a regulatory asset of $5 million (2006 – nil) in the variance account related to revenues for ancillary services that were below the forecast provided to the Province for the purposes of establishing regulated prices. As at December 31, 2007, OPG reported a regulatory asset of $7 million (2006 – regulatory liability of $4 million) in a variance account reflecting water conditions that were different to those forecasted. Further, as of December 31, 2007, OPG reported a regulatory asset of $2 million (2006 – nil) reflecting lower generation revenue caused by transmission outages and transmission restrictions.

The other regulatory liability includes a portion of non-regulated revenue earned by OPG's regulated assets, which OPG expects to apply as a reduction to future regulated prices to be established by the OEB. The measurement of regulatory assets and liabilities is subject to certain estimates and assumptions including assumptions made in the interpretation of the regulation.

In February 2007, the Province amended the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to clarify certain sections of the regulation and to require OPG to establish a deferral account in connection with certain changes to its liability for nuclear used fuel management and its liability for nuclear decommissioning and low and intermediate level waste management. The deferral account requires OPG to record a regulatory asset or liability representing the revenue requirement impact associated with the changes in these nuclear liabilities arising from an Approved Reference Plan, approved after April 1, 2005, in accordance with the terms of the ONFA. On December 31, 2006, OPG recorded an increase of $1,386 million in these nuclear liabilities arising from the 2006 Approved Reference Plan.

Commencing in the first quarter of 2007 and up to the effective date of the OEB's first order establishing regulated prices, which is expected to be after March 31, 2008, OPG records a regulatory asset associated with the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan. As at December 31, 2007, OPG recorded $131 million in the deferral account relating to this increase in the nuclear liabilities. The OEB is directed by the regulation to ensure that OPG recovers the balance recorded in the deferral account on a straight-line basis over a period not to exceed three years, to the extent that the OEB is satisfied that the revenue requirement impacts are accurately recorded.

The amendment to the regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) made in February 2007 clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility, if these costs are either within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or if the OEB is satisfied that these costs were prudently incurred. A further amendment in February 2008, clarified that the OEB must ensure that OPG recovers the costs incurred and firm financial commitments made in the course of planning and preparing for the development of proposed new nuclear facilities. As a result of these amendments, OPG has recorded a regulatory asset of $28 million for the year ended December 31, 2007, which represents non-capital costs for its nuclear generation development initiatives. Non-capital costs are recorded as a regulatory asset to the extent that they were incurred after April 1, 2005 and were not included in the forecast information provided to the Province for the purposes of setting interim regulated prices.

Income Taxes

OPG is exempt from tax under the *Income Tax Act* (Canada). However, under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act, 1998*.

OPG's operations are complex and the computation of the provision for income taxes involves interpretation of the various tax statutes and regulations. The *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario) have a large body of technical interpretations and case law to help determine the Company's filing position. However, the *Electricity Act, 1998* and tax related regulations are relatively new and it has therefore been necessary for OPG, since its inception, to take certain filing positions in calculating the amount of its income tax provision. These filing positions may be challenged on audit and some of them possibly disallowed, resulting in a potential significant change in OPG's tax provision upon reassessment.

OPG uses the liability method of accounting for income taxes for the unregulated segment of the business and provides future income taxes for temporary differences. The process involves an estimate of OPG's actual current tax liability and an assessment of the Company's future income taxes as a result of temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the consolidated balance sheets. In addition, OPG has to assess whether the future tax assets can be realized and to the extent that recovery is not considered likely, a valuation allowance must be established.

Commencing April 1, 2005, OPG accounts for income taxes related to the rate regulated segments of its business in accordance with paragraphs 102 to 104, inclusive, of the CICA Handbook, Section 3465 – Income Taxes. Accordingly, OPG does not recognize future income taxes related to the rate regulated segments of its business to the extent that these income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

Future tax assets of $234 million (2006 – $228 million) have been recorded on the consolidated balance sheet at December 31, 2007. The Company believes there will be sufficient future taxable income and capital gains that will permit the use of these deductions and carry-forwards. Because of the adoption of rate regulated accounting, OPG did not record future tax assets of $3,313 million (2006 – $3,514 million), which it would have recorded under the liability method, resulting primarily from temporary differences related to the nuclear fixed asset removal and nuclear waste management provisions.

Future tax liabilities of $439 million (2006 – $477 million) have been recorded on the consolidated balance sheet at December 31, 2007. Because of the adoption of rate regulated accounting, OPG did not record future tax liabilities of $3,749 million (2006 – $3,686 million), which it would have recorded under the liability method, resulting primarily from temporary differences related to the nuclear fixed asset removal and nuclear waste management funds.

Fixed Assets

OPG's business is capital intensive and requires significant investment in property, plant and equipment, and at December 31, 2007, the net book value of OPG's fixed assets was $12,777 million (2006 – $12,761 million).

Property, plant and equipment are tested for recoverability whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Recoverability of property, plant and equipment is determined by comparing the carrying amount of an asset to the undiscounted future net cash flows expected to be generated from the asset over its estimated useful life. In cases where the undiscounted expected future cash flows are less than the carrying amounts, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value, or discounted cash flows.

Various assumptions and accounting estimates are required to determine whether an impairment loss should be recognized and, if so, the value of such loss. This includes factors such as short-term and long-term forecasts of the future market price of electricity, the demand for and supply of electricity, the in-service dates of new and laid-up generating stations, inflation, fuel prices, capital expenditures and station lives. The amount of the future net cash flow that OPG expects to receive from its fixed assets could differ materially from the net book values recorded in OPG's consolidated financial statements.

The accounting estimates related to asset depreciation require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors. The Province accepted the advice of the IESO in their June 2006 report that indicated a need for 2,500 MW to 3,000 MW of additional capacity to maintain system reliability. As a result of delays in the plan to replace coal-fired generation by 2009, effective July 1, 2006, OPG extended the life for all of the coal-fired generating stations, for purposes of calculating depreciation, to December 31, 2012. The extension reduced depreciation expense by $64 million in 2006, $126 million in 2007 and will reduce depreciation expense by $46 million in 2008.

From 2009 to 2012, the depreciation expense will increase by $59 million in each year. OPG will reassess the service life of the coal-fired stations upon submission of the IPSP, and as subsequently approved by the OEB. Any change to the estimated service life of the coal-fired generating stations, for purposes of calculating depreciation, could have a material impact on OPG's consolidated financial statements.

During 2006, OPG extended the remaining service life of the Pickering B nuclear generating station to 2014 for depreciation purposes after a review of the life limiting components, taking into account recent station capacity factors. The extension reduced depreciation expense by $36 million in 2006 and 2007.

Effective January 1, 2008, the service life of Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis for life limiting components. The life extension will reduce depreciation expense by $18 million annually.

The Company has extended the service life of Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's IPSP, and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense will decrease by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life of the Bruce A nuclear generating station for depreciation purposes will decrease depreciation expense by $8 million annually.

Pension and Other Post Employment Benefits

OPG's accounting for pension and other post employment benefits are dependent on management's accounting policies and assumptions used in calculating such amounts.

Accounting Policy

In accordance with Canadian GAAP, actual results that differ from the assumptions used, as well as adjustments resulting from changes in assumptions, are accumulated and amortized over future periods and therefore generally affect recognized expense and the recorded obligation in future periods.

Under OPG's policy on accounting for pension and OPEB, certain actuarial gains and losses have not been charged to expense and are therefore not reflected in OPG's pension and OPEB obligations as a result of the following:

- Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six per cent assumed real return over a five-year period.
- For pension and OPEB, the excess of the net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets (the "corridor"), is amortized over the expected average remaining service life.

In addition, past service costs arising from the pension and OPEB amendments are amortized over future periods and therefore affect recognized expense and the recorded obligation in future periods.

At December 31, 2007, the unamortized net actuarial loss and unamortized past service costs for the pension plans and OPEB amounted to $1,993 million (2006 – $1,937 million). Details of the unamortized net actuarial loss and total unamortized past service costs at December 31, 2007 and 2006 are as follows:

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006
Net actuarial loss (gain) not yet subject to amortization due to use of market-related values	**2**	(677)	**–**	–	**–**	–
Net actuarial loss not subject to amortization due to use of corridor	**960**	931	**16**	15	**206**	207
Net actuarial loss subject to amortization	**384**	854	**6**	5	**332**	492
Unamortized net actuarial loss	**1,346**	1,108	**22**	20	**538**	699
Unamortized past service costs	**64**	82	**3**	3	**20**	25

Accounting Assumptions

Assumptions used in determining projected benefit obligations and the costs for the Company's employee benefit plans are evaluated periodically by management in consultation with an independent actuary. Critical assumptions, such as the discount rate used to measure the Company's benefit obligations, the expected long-term rate of return on plan assets and health care cost projections, are evaluated and updated annually. The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields.

A change in these assumptions, holding all other assumptions constant, would increase (decrease) 2007 costs, excluding amortization components, as follows:

(millions of dollars)	Registered Pension Plan	Supplementary Pension Plans	Other Post Employment Benefits
Expected long-term rate of return			
0.25% increase	(20)	na	na
0.25% decrease	20	na	na
Discount rate			
0.25% increase	(13)	–	(3)
0.25% decrease	13	–	3
Inflation			
0.25% increase	38	1	–
0.25% decrease	(36)	(1)	–
Salary increases			
0.25% increase	10	1	–
0.25% decrease	(10)	(1)	–
Health care cost trend rate			
1% increase	na	na	37
1% decrease	na	na	(29)

na – change in assumption not applicable

Asset Retirement Obligations

OPG's asset retirement obligations are comprised of liabilities for nuclear fixed asset removal and nuclear waste management costs and non-nuclear fixed asset removal costs related to the decommissioning of fossil-fuelled generating stations. The liabilities associated with decommissioning the nuclear generating stations and long-term used nuclear fuel management comprise the most significant amounts of the total obligation. The estimates of the nuclear liabilities are reviewed on an annual basis as part of the ongoing, overall nuclear waste management program. Changes in the nuclear liabilities resulting from changes in assumptions or estimates that impact the amount of the originally estimated undiscounted cash flows are recorded as an adjustment to the liabilities, with a corresponding change in the related asset retirement cost capitalized as part of the carrying amount of fixed assets.

The estimates of nuclear fixed asset removal and nuclear waste management costs require significant assumptions in the calculations since the programs run for many years. Significant assumptions underlying operational and technical factors are used in the calculation of the accrued liabilities and are subject to periodic review. Changes to these assumptions, including changes in the timing of programs, technology employed, inflation rate, and discount rate, could result in significant changes in the value of the accrued liabilities.

During the fourth quarter of 2007, the Company re-estimated the costs to complete the remaining work to remediate the Lakeview fossil-fuelled generating station site in 2008. As a result, OPG recorded a recovery of $20 million in other gains or losses to reflect a change in the estimated costs.

In 2006, OPG reviewed and updated the cost estimates under the ONFA 2006 Approved Reference Plan. The 2006 Approved Reference Plan under the ONFA resulted in a $1,386 million increase in OPG's liability for nuclear waste management and decommissioning, and a corresponding increase in the carrying value of the nuclear generating stations to which this liability relates. Changes to the reference plan and cost estimates were mainly due to a change in economic indices, recent industry experience in decommissioning reactors, and additional used fuel and waste quantities resulting from service life extensions.

The increment in the amount of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning was discounted using the current credit-adjusted risk-free rate of 4.6 per cent. A ten basis points (0.1 per cent) change in this discount rate would impact the carrying value of the asset retirement obligations by approximately $100 million.

Financial Instruments Measured at Fair Value
Financial assets and liabilities, including exchange traded derivatives, and other financial instruments measured at fair value and for which quoted prices in an active market are available, are determined directly from those quoted market prices.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the balance sheet date. This is the case for over-the-counter derivatives, which includes energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and ABCP issued by third-party trusts. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

OPG's use of financial instruments expose the Company to various risks, including credit risk, commodity price risk, and foreign currency and interest rate risk. A discussion of how OPG manages these and other risks are in the *Risk Management* section.

Changes in Accounting Policies

Financial Instruments

On January 1, 2007, the Company adopted the CICA Handbook Sections 3855, *Financial Instruments – Recognition and Measurement*, 3865, *Hedges*, 1530, *Comprehensive Income*, 3251, *Equity*, and 3861, *Financial Instruments – Disclosure and Presentation*. As a result of adopting these standards, OPG has recorded transition adjustments to opening retained earnings of $513 million and accumulated other comprehensive income ("AOCI") of $21 million. Comparative amounts for prior periods have not been restated. The impact of adoption is further disclosed in Note 13 to the audited annual consolidated financial statements.

Financial instrument assets include cash and cash equivalents, accounts receivable, nuclear fixed asset removal and nuclear waste management funds, and derivative instruments. Financial instrument liabilities include accounts payable and accrued charges, short-term notes payable, long-term debt and derivative instruments.

Future Changes in Accounting Policies and Estimates

Capital Disclosures and Financial Instruments

In December 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures* ("Section 1535"), Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), and Handbook Section 3863, *Financial Instruments – Presentation* ("Section 3863"). These new standards are effective for the Company beginning January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued a new accounting standard, Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The new section replaced the existing Section 3030, Inventories. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG's critical spare parts currently reported as materials and supplies on OPG's consolidated balance sheets will be accounted for as property, plant and equipment. The new accounting standard and the consequential amendments are effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of $19 million, net of accumulated depreciation, to property, plant and equipment in 2008.

Accounting for Regulatory Operations

In December 2007, the CICA revised its guidance on accounting for rate-regulated operations. The revision resulted in amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 ("AcG-19"), *Disclosures by Entities Subject to Rate Regulation*, as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate-regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG will be required to recognize future income taxes associated with its rate-regulated operations in the same manner as it currently recognizes future income taxes for its unregulated operations. OPG will apply the changes prospectively to interim and annual financial consolidated statements beginning January 1, 2009. OPG is currently evaluating the impact of implementing these changes on its consolidated financial statements.

Risk Management

Governance Structure

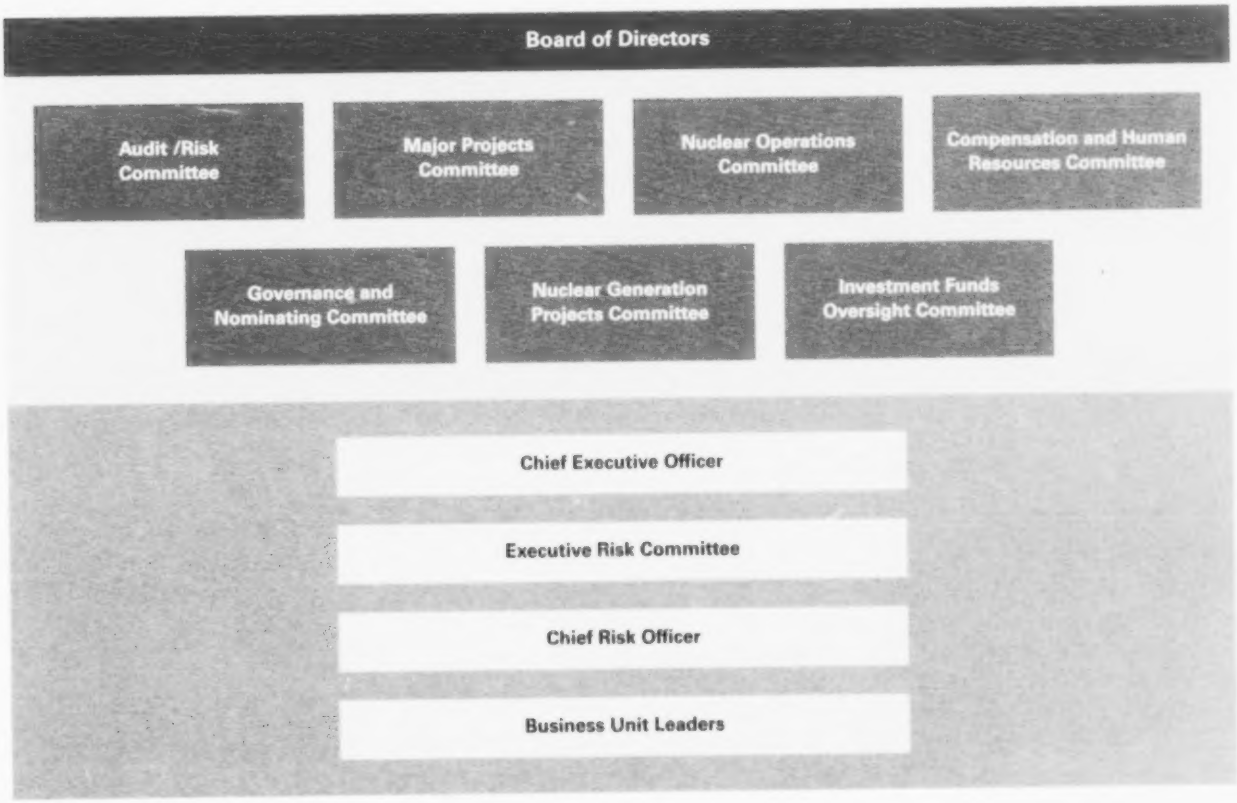
OPG operates as an independent commercial organization within a complex and highly regulated industry. The Company must effectively manage a wide array of financial, operational and commercial risks that arise from its various business activities.

To manage these risks, OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risk management activities across the Company. These activities are coordinated by a centralized risk management group which is led by the Chief Risk Officer. The risk management group is responsible for providing independent assessments of the effectiveness of management's risk mitigation activities and/or actions to the Audit and Risk Committee of the Board on a quarterly basis.

Many of the risks identified by OPG can be managed effectively through various mitigation activities and/or actions. However, some risks are difficult to effectively mitigate as they involve external factors or result from events unrelated to OPG. For instance, changes to various environmental, financial, and nuclear safety regulations can all have a significant impact on OPG's ability to meet its business plan objectives.

Notwithstanding these challenges, OPG continues to focus on managing all of the key risks that it has identified in order to meet its strategic objectives and business plan goals. An illustration of OPG's governance structure that supports its risk management function is provided below.

Risk Management Governance Structure at OPG


Board of Directors
Audit /Risk Committee
Major Projects Committee
Nuclear Operations Committee
Compensation and Human Resources Committee
Governance and Nominating Committee
Nuclear Generation Projects Committee
Investment Funds Oversight Committee
Chief Executive Officer
Executive Risk Committee
Chief Risk Officer
Business Unit Leaders

Electricity Generation

OPG is exposed to the financial impacts of uncertain output from its generating stations. The amount of electricity generated by OPG is affected by a number of factors including fuel supply, equipment malfunction or deterioration, weather, maintenance requirements, water levels, and regulatory and environmental regulations. The primary unfavourable impacts of these factors are higher cost of operations, reduced revenues and the potential derating of a generating unit resulting in production that is lower than its normal level of output.

Nuclear Generation

The uncertainty associated with the volume of electricity produced by OPG's nuclear generating units is primarily driven by the condition of the plant components and systems, which are subject to the effects of aging. The generating stations have extensive inspection and maintenance programs that are designed to monitor and identify actions needed to keep the generating stations within design parameters and to maintain reliability.

In certain cases, deterioration of plant components progresses in an unexpected manner, resulting in the need to increase monitoring, conduct extensive repairs or undertake additional remedial measures. In some instances, derating of the units may be required in order to maintain a safe operating margin. When such a technology risk first appears or is suspected, a specific monitoring program is established. If the risk exposure materializes, a resolution program is initiated. The primary impact of these technology risks is an increase in the long-term cost of operations. In some instances, mitigation creates additional outage work, which may result in outage extensions.

Hydroelectric Generation

OPG's hydroelectric generating performance is partially dependent on the availability of water, which can vary from year to year due in large part to the weather. The inherent uncertainty in forecasting water levels introduces a significant degree of uncertainty with respect to forecasting hydroelectric generation. OPG manages this risk by using production forecasting models that incorporate unit efficiency characteristics, water flow conditions and outage plans. Water flows and outage conditions are assessed, monitored and adjusted on a regular basis.

OPG's hydroelectric generating stations vary in age from 13 to 108 (DeCew Falls I) years, with an average age of over 73 years. Over 75 per cent of the hydroelectric generating capacity is over 50 years old. Due to the variability and age of some of the equipment and civil components, there is a risk that some facilities will require significant work and funding to sustain their reliability. OPG manages these reliability risks by conducting ongoing maintenance of critical components, engineering reviews, plant condition assessments, and inspections to identify future work necessary to sustain and, if necessary, upgrade the plant and its equipment. Over the next five years, OPG plans to continue its reinvestment in its hydroelectric assets to address issues associated with the age of the equipment in order to maintain the performance of its assets. The success of the program is monitored through the measurement of reliability. OPG's hydroelectric assets continue to significantly outperform relevant North American reliability-related benchmarks.

The hydroelectric business segment operates 238 dams across the province. To mitigate and manage the risks associated with the operation of these dams, OPG has a dam safety program that performs ongoing maintenance, upgrades and rehabilitation work. OPG also undertakes ongoing dam safety reviews and monitoring, and ad hoc peer reviews. Emergency preparedness and response plans have been established for all facilities to mitigate losses in the event of a dam failure or uncontrolled release of water.

Fossil-Fuelled Generation

Electricity generation from fossil-fuelled generation units can be unfavourably affected by plant and equipment failures. OPG manages and mitigates these risks by performing ongoing maintenance and undertaking engineering reviews, condition assessments and critical reviews of maintenance processes. OPG uses the results of these reviews and assessments to implement changes to inspection, maintenance, and capital project programs. The performance of OPG's fossil-fuelled stations is measured by their availability to produce electricity when called upon. During 2007, OPG's fossil-fuelled generating stations have achieved significant reliability improvements.

Market Risks

There are a number of discrete kinds of market risks that can impact OPG's financial performance. Many of these risks arise due to OPG's exposure to volatility in equity prices, prices or supply of various commodities, foreign exchange and interest rates, as well as the impact that unexpected events have on credit, global liquidity and regional trading markets. In order to respond to this complex array of risks, OPG manages these risks from a conservative perspective in order to reduce the uncertainty or mitigate the potential negative impact that these events could have on financial results. However, despite these measures, some of OPG's exposures to financial risks cannot be completely or effectively mitigated due to regulatory constraints or due to the nature of the risk itself.

Equity Prices

Equity price risk is the risk of loss or unexpected volatility due to decline in the value of individual equities and/or equity indices. OPG's specific exposure to equity prices relates to the value of the Company's Nuclear Funds and pension funds that contain a significant allocation to domestic and international equity markets. These funds are managed by OPG to generate investment returns sufficient to meet their respective financial obligations over time.

To manage this risk, OPG's Nuclear Funds and pension fund have investment policies and procedures in place to set out the investment framework of the funds, including the investment assumptions, permitted investments, and various investment constraints. Such policies and procedures are approved annually by OPG's Investment Funds Oversight Committee of the Board of Directors. For the Nuclear Funds, such policies and procedures are also agreed to jointly with the Province, under ONFA.

Commodities

Changes in the market price of electricity or of the fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations. To manage this risk, the Company seeks to maintain a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios to the extent that trading liquidity in the relevant commodities markets provides the economic opportunity to do so. To manage fuel price risk, OPG has a fuel hedging program, which includes using fixed price and indexed contracts, as well as approved derivative products.

OPG's revenue is also affected by changes in the market price of electricity. For 2008, a $1/MWh increase in the spot market price of electricity above the revenue limit would increase OPG's gross margin by approximately $17 million, while a $1/MWh decrease below the revenue limit would decrease gross margin by approximately $45 million. The impact of the revenue limit rebate mechanism results in an asymmetrical impact on gross margin when the price of electricity increases and decreases.

The percentages of OPG's expected generation, emission requirements and fuel requirements hedged are shown below:

	2008	2009	2010
Estimated generation output hedged[1]	92%	72%	60%
Estimated fuel requirements hedged[2]	95%	80%	52%
Estimated nitric oxide ("NO") emission requirement hedged[3]	100%	100%	100%
Estimated SO2 emission requirement hedged[3]	100%	100%	100%

1 Represents the portion of megawatt hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, agreements with the IESO, OPA auction sales and the revenue limit on OPG's non-prescribed assets (which ends on April 30, 2009).

2 Represents the approximate portion of megawatt hours of expected generation production (and fossil year-end inventory target) from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios. Since production from hydroelectric facilities is primarily influenced by expected weather and weather patterns, fuel hedge ratios for hydroelectric facilities are assumed to be 100 per cent.

3 Represents the approximate portion of megawatt hours of expected fossil production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under Ontario Environmental Regulation 397/01.

Foreign Exchange and Interest Rates

OPG's foreign exchange exposure is attributable to two primary factors: United States dollar denominated transactions such as the purchase of fossil fuels; and the influence of USD denominated commodity prices on Ontario electricity spot market prices. The magnitude and direction of the exposure to the USD is affected by generation reliability and the price volatility of USD denominated commodities. OPG currently manages its exposure using forwards and various derivative products to periodically hedge its anticipated USD exposures according to approved risk management policies.

OPG has interest rate exposure on its short-term borrowings and investment programs. The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. Interest rate risk may be hedged using derivative products. The management of these risks is undertaken by hedging the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated new financing. As of December 31, 2007, OPG had total interest rate swap contracts outstanding with a notional principal of $692 million.

Credit

OPG's credit risk exposure is comprised of two major components: the first is derived from its sales of electricity and the second is derived from its purchases of services and products. As the majority of OPG's sales are through the IESO-administered spot market, OPG management accepts this credit risk due to the IESO's primary role in the Ontario electricity market. This confidence is based on the IESO's own credit risk management policies and practices, which require all spot market participants to meet specific standards for creditworthiness. Additionally, in the event of a participant default, the loss is shared on a pro-rata basis among all participants thus reducing the specific exposure to OPG.

The following table provides information on credit risk from energy sales and trading activities as at December 31, 2007:

			Potential Exposure for Largest Counterparties	
Credit Rating[1]	Number of Counterparties[2]	Potential Exposure[3]	Number of Counterparties	Counterparty Exposure
		(millions of dollars)		(millions of dollars)
Investment grade	165	115	5	85
Below investment grade	43	60	5	48
IESO[4]	1	453	1	453
Total	209	628	11	586

1 Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and letters of credit or other security.

2 OPG's counterparties are defined by each master agreement.

3 Potential exposure is OPG's assessment of maximum exposure over the life of each transaction at a 95 per cent confidence interval.

4 Credit exposure to the IESO peaked at $883 million during the year ended December 31, 2007 and at $1,029 million during the year ended December 31, 2006.

OPG's second element of credit risk relates to the exposures created by companies ("counterparties") who are contracted to provide services or products. OPG manages this risk using a comprehensive credit risk management function that independently evaluates all major counterparties and provides continuous input to business units who acquire these services.

Liquidity
OPG operates in a capital intensive business. Significant financial resources are required to fund capital improvement projects and related maintenance programs at generating stations. In addition, the Company has other significant disbursement requirements including investment in new generating capacity, annual funding obligations under the ONFA, pension funding and continuing debt maturities with the OEFC. OPG must ensure it has the borrowing capacity and access to the necessary financing sources to fund its capital requirements. A discussion of corporate liquidity is included in the *Liquidity and Capital Resources* section.

OPG's has financial exposure to several third-party ABCP trusts as a result of short-term investment activities. The exposure, which was initially $103 million, has been reduced to $58 million as at December 31, 2007 following the settlement of $45 million of notes held with Skeena Capital Trust. OPG's remaining exposure to third-party ABCP Trusts is not considered material and will have no adverse impact on OPG's liquidity. A discussion of OPG's exposure to third-party ABCP is included in the *Recent Developments* section.

Trading
Open trading positions are subject to measurement against Value at Risk ("VaR") limits. For a given portfolio, VaR measures the possible future loss in terms of market value, which under normal market conditions will not be exceeded within a defined probability and time period. VaR utilization ranged between $0.5 million and $2.0 million during the year ended December 31, 2007, compared to $1.2 million and $3.4 million during the year ended December 31, 2006. VaR utilization is closely monitored in order to ensure compliance with approved limits.

Trading liquidity continues to be constrained in Ontario and interconnected markets due to broader energy market fundamentals. In addition, the revenue limit reduces customer exposure to electricity spot market prices and further limits trading activity.

Human Resource Risks
OPG continues to face demographic risks and resourcing gaps To address these risks, OPG has implemented plans and programs designed to meet current and future business needs for human resources and critical skills. Business leaders are actively involved in the review of workforce needs and plans to resource critical skills and jobs in their functional lines of business. Initiatives continue in support of OPG's employment brand, youth outreach and educational relations. In the third quarter of 2007, OPG launched its largest campus recruitment program to date, participating in career fairs and information sessions on campuses across Ontario and on the East Coast.

In addition, OPG's commitment to building and strengthening internal capabilities was evidenced by the introduction of an integrated leadership competency model, focused efforts in terms of succession planning, and the introduction of a new supervisory training program.

Environmental Risks
Changes to environmental laws or delays in implementing the current timetable of the Province's coal replacement policy could create compliance risks that may be addressed by the installation of additional equipment or control technologies, the purchase of additional emission reduction credits, or by constraining production from the fossil-fuelled fleet. In addition, a failure to comply with applicable environmental laws may result in enforcement actions, including the potential for orders or charges. Further, some of OPG's activities have the potential to cause contamination to land or water that may require remediation. The potential liability associated with any of these events could have a material adverse effect on the business.

In order to meet the federal and provincial emission targets previously identified under the heading, *Recent Developments, Climate Change Plan*, there is a risk that OPG will be required to either reduce certain emissions or purchase offsets, which could have a material adverse impact to OPG.

Major Project Risks

OPG is involved with several major development projects, including: the Niagara Tunnel, Lac Seul, Portlands Energy Centre, other projects supporting operating units, hydroelectric development projects, the potential refurbishment of existing nuclear stations, and the consideration of new nuclear units at OPG's Darlington nuclear generation site. There is a risk that OPG will have insufficient resources to implement several large projects concurrently. This risk is especially critical given the complexity, long project timelines, and inherent risks associated with these projects.

OPG has taken many steps to address the unique challenges relating to the various development projects. OPG utilizes Owner's Representative services to acquire the necessary technical expertise to monitor and control projects. Also, major projects have been contracted on a "design-build at a fixed-price" basis, which provides OPG with greater cost certainty. In addition, certain projects have liquidated damages built into the contracts to mitigate late in-service by the respective contractor. However, this contracting strategy does not fully mitigate the risk to OPG's reputation, as Owner, in the event of prolonged scheduling delays.

For nuclear related projects, OPG has established a new division to evaluate the viability of the refurbishment of existing nuclear facilities in order to extend their life. The activities of this division include completing plant condition and environmental assessments, developing appropriate project infrastructures and confirming various industry regulatory requirements.

Regulatory Risks

Effective April 1, 2005, OPG receives regulated prices for electricity generated from most of its baseload hydroelectric facilities and all of the nuclear facilities that it operates. These prices will remain in effect until at least March 31, 2008.

In November 2007, OPG filed an application with the OEB for new payment amounts for its regulated facilities effective April 1, 2008, for a 21-month period. Effective some time after March 31, 2008, the OEB will establish new regulated prices for electricity generated by OPG's regulated facilities. The process of setting new regulated prices is inherently uncertain. There is a risk that new prices established by the OEB may not provide for recovery of all of OPG's costs, or may not provide an appropriate rate of return. Despite the fact that some costs may not be included within the new prices, these expenditures may still be necessary to maintain the reliability and safety of OPG's regulated generating assets.

The uncertainty associated with nuclear regulatory requirements is primarily driven by plant deterioration, technology risks and changes to technical codes. Remaining current with and addressing these requirements adds to the cost of operations and in some instances, it may result in a reduction in the productive capacity of a plant, or in the earlier than planned replacement of a plant component. As there is currently no preset or prescribed methodology to assess nuclear safety, OPG and the regulator have occasionally differing expectations about the timing or extent of any remediation needed. While such situations are normally resolved through subsequent detailed reviews and discussions, they contribute to the uncertainty of the regulatory requirements. The primary impact of this risk is an increase in the long term cost of operations; in some instances these are accompanied by outages necessary to deal with the risk.

Regulatory uncertainty also remains a significant risk for all activities and programs related to nuclear plant life extension, rehabilitation, new plant construction and decommissioning (such as the Pickering A Units 2 and 3 safe storage project) as existing standards and regulatory requirements may not readily extend to new conditions or designs. The primary effects of this risk are project delays and higher development costs.

OPG manages uncertainty associated with nuclear regulatory requirements by maintaining close contact with the regulator and issuers of standards and codes for the early identification and discussions of issues. Together with other industry members, OPG is also investigating the use of a common, risk based mode of assessment and regulation.

Reputation Risks

Maintaining a good reputation is important to every company. OPG focuses on building and maintaining a good reputation through many practices, including appropriate corporate governance practices, transparency, effective communications with stakeholders, and continuous improvement initiatives to manage and mitigate various risks across the Company that could impact its reputation.

Related Party Transactions

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions are summarized below:

	Revenues	**Expenses**	Revenues	Expenses
(millions of dollars)	**2007**		2006	
Hydro One				
Electricity sales	**28**	**–**	34	–
Services	**–**	**12**	–	13
Province of Ontario				
GRC water rentals and land tax	**–**	**129**	–	132
Guarantee fee	**–**	**8**	–	8
Used Fuel Fund rate of return guarantee	**–**	**(130)**	–	96
Decommissioning Fund excess funding	**–**	**(291)**	–	(7)
OEFC				
GRC and proxy property tax	**–**	**199**	–	205
Interest income on receivable	**–**	**(6)**	–	(29)
Interest expense on long-term notes	**–**	**187**	–	203
Capital tax	**–**	**32**	–	51
Income taxes	**–**	**(51)**	–	86
Indemnity fees	**–**	**–**	–	2
IESO				
Electricity sales	**5,094**	**104**	5,029	146
Revenue limit rebate	**(227)**	**–**	(161)	–
Ancillary services	**145**	**–**	132	–
Other	**–**	**1**	1	1
	5,040	**194**	5,035	907

At December 31, 2007, accounts receivable included $2 million (2006 – $8 million) due from Hydro One and $211 million (2006 – $71 million) due from the IESO. Accounts payable and accrued charges at December 31, 2007 included $2 million (2006 – $2 million) due to Hydro One.

Corporate Governance

Corporate Governance

National Instrument 58-101, *Disclosure of Corporate Governance Practices*, has been implemented by Canadian securities regulatory authorities to provide greater transparency for the marketplace regarding issuers' corporate governance practices. Information with respect to OPG's Board of Directors is as follows:

Board of Directors and Directorships

OPG's Board of Directors is made up of individuals with substantial capability in managing and restructuring large businesses, managing and operating nuclear stations, managing capital intensive companies, and overseeing regulatory, government and public relations. The Board exercises its independent supervision over management as follows: the majority of members of the Board of Directors are independent of the Company; meetings of the Board of Directors are held at least six times a year; a formal Charter for the Board of Directors, and for each Board Committee has been adopted; each Board Committee is chaired by an independent director; and a portion of each Board and Committee meeting is reserved for directors to meet without management present.

All directors listed are independent within the meaning of Section 1.4 of Multilateral Instrument 52-110 of the Canadian Securities Administrators ("MI 52-110") except for Jim Hankinson who is the President and Chief Executive Officer ("CEO") of OPG and Gary Kugler who is the Chairman of the Nuclear Waste Management Organization.

The following are the directors of OPG as at February 28, 2008

Jake Epp
Chairman

Age: 68
Calgary, Alberta, Canada

Jake Epp was appointed as Chairman of the Board of Ontario Power Generation Inc. in April 2004. He held the position of interim Chairman from December 2003 until his current appointment. Jake Epp was a member of the provincial government's review committee that was created in December 2003 and headed by John Manley, to look at OPG's future role in the province's electricity market; examine its corporate and management structure; and decide whether OPG should go ahead with refurbishing three more nuclear reactors at the Pickering A nuclear power plant. The committee's report was presented to the government in March 2004. In May 2003, he was appointed by the Ontario government to lead a panel to review the delays and cost overruns at the Pickering A nuclear generating station. The findings of the report were released in December 2003. He is also certified by the Institute of Corporate Directors.

Board/Committee Membership	**2007 Attendance**	
Board (since December 2003)	11 of 11	100%
Compensation and Human Resources Committee (since November 2004)	11 of 11	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Nuclear Generation Projects Committee (since November 2006)	5 of 5	100%
The Board Chair attends all other committee meetings	22 of 23	96%

Principal Occupation
Chairman, Ontario Power Generation Inc. Board of Directors

Board Memberships for other Reporting Issuers
QHR Technologies, Inc.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

James F. Hankinson
President and CEO

Age: 64
Toronto, Ontario, Canada

James Hankinson was appointed as President and Chief Executive Officer of Ontario Power Generation Inc. in May 2005. He has broad management experience in energy, transportation, resource and manufacturing-based businesses. He served as President and Chief Executive Officer of New Brunswick Power Corporation from 1996 to 2002, and during that time, had a significant impact on improving the operational and financial position of the company. In 1973, he joined Canadian Pacific Limited, and served as Chief Operating Officer from 1990 to 1995. A chartered accountant, Mr. Hankinson has a Master of Business Administration from McMaster University, and an Honourary Doctor of Laws degree from Mount Allison University. He also sits on the boards of CAE Inc. and Maple Leaf Foods Inc.

Board/Committee Membership	**2007 Attendance**	
Board (since December 2003)	11 of 11	100%
The President and CEO attends all committee meetings with the exception of select Compensation and Human Resources Committee meetings	35 of 37	95%

Principal Occupation
President and Chief Executive Officer, Ontario Power Generation Inc.

Board Memberships for other Reporting Issuers
CAE Inc.
Maple Leaf Foods Inc.

Independence from OPG
Not Independent (Member of Management)

Interlocking Directorships on Boards of other Reporting Issuers
None

Donald Hintz
Retired President,
Entergy Corporation

Age: 65
Punta Gorda, Florida, U.S.A.

Donald Hintz is the retired President of Entergy Corporation, where he was responsible for Entergy's 30,000 megawatts of generating assets, including 10 nuclear plants. Prior to his appointment as President he spent seven years as President and CEO of Entergy Operations Inc. Here he oversaw the improvement of Entergy's nuclear operations to top quartile performance. Mr. Hintz currently serves on the Board of Entergy Corporation and is the President of the American Nuclear Society, an international organization of more than 10,500 nuclear scientists and engineers. He has a Bachelor of Science in Chemical Engineering from the University of Wisconsin, and has completed the Utility Executive Program and the Advanced Management Program at the University of Michigan and the Harvard Business School, respectively.

Board/Committee Membership	**2007 Attendance**	
Board (since October 2004)	9 of 11	82%
Compensation and Human Resources Committee (since November 2004)	10 of 11	91%
Nuclear Operations Committee* (since November 2004)	3 of 4	75%
Nuclear Generation Projects Committee (since November 2006)	3 of 5	60%

* Chair of Committees

Principal Occupation
Retired President of Entergy Corporation

Board Memberships for other Reporting Issuers:
Entergy Corporation

Independence from OPG
Independent

Interlocking Directorships on
Boards of other Reporting Issuers
None

Gary Kugler
Chairman,
Nuclear Waste
Management Organization

Age: 67
Burlington, Ontario, Canada

Dr. Gary Kugler is the retired Senior Vice President, Nuclear Products and Services of Atomic Energy of Canada, Limited (AECL), where he was responsible for all of AECL's commercial operations, including nuclear power plant sales and services worldwide. During his 34 years with AECL, he also held various technical, project management, and business development positions. Prior to joining AECL, he served as a pilot in the Canadian air force. Dr. Kugler currently serves as Chairman of the Nuclear Waste Management Organization's Board of Directors. He holds a Bachelor of Science degree in honours physics and a Ph.D. in nuclear physics from McMaster University.

Board/Committee Membership	**2007 Attendance**	
Board (since September 2004)	9 of 11	82%
Audit and Risk Committee (since November 2004)	3 of 4	75%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Nuclear Operations Committee (since November 2004)	4 of 4	100%
Nuclear Generation Projects Committee (since November 2006)	5 of 5	100%

Principal Occupation
Chairman, Nuclear Waste Management Organization

Board Memberships for other Reporting Issuers:
None

Independence from OPG
Not Independent
(Chairman of Nuclear Waste Management Organization)

Interlocking Directorships on
Boards of other Reporting Issuers
None

M. George Lewis
Chairman and CEO,
RBC Asset Management Inc.

Age: 47
Toronto, Ontario, Canada

George Lewis is Group Head, Wealth Management, RBC Financial Group. Mr. Lewis is also Chairman and Chief Executive Officer of RBC Asset Management Inc. Prior to his current appointment, Mr. Lewis was Head of Wealth Management for the Canadian Personal and Business segment of RBC FG, Canada's largest bank. Formerly he was Managing Director, Head of Institutional Equity Sales, Trading and Research with RBC Capital Markets and was Canada's top-rated analyst for three consecutive years. He has extensive experience in the investment industry and has a Master of Business Administration degree with distinction from Harvard University, a Bachelor of Commerce degree with high distinction from Trinity College at the University of Toronto and is a chartered financial analyst and chartered accountant, as well as being certified by the Institute of Corporate Directors. Mr. Lewis serves on the Board of Directors of the Centre for Addiction and Mental Health Foundation and the Toronto Symphony Orchestra and is Chair of the Bishop's Company of the Anglican Diocese of Toronto, as well as a member of the Cabinet of the United Way of Greater Toronto and Patron.

Board/Committee Membership	2007 Attendance	
Board (since February 2005)	10 of 11	91%
Audit and Risk Committee* (since February 2005)	4 of 4	100%
Investment Funds Oversight Committee* (since March 2005)	3 of 3	100%

* Chair of Committee

Principal Occupation
Group Head, Wealth Management, RBC Financial Group

Board Memberships for other Reporting Issuers
None

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

David J. MacMillan
Corporate Director

Age: 55
London, United Kingdom

David MacMillan is a Managing Director of Good Energies, a European based multi-billion dollar private equity fund that invests in renewable energy technology companies and renewable energy companies and projects worldwide. He is also a Non-Executive Director of InterGen N.V., an international owner and operator of utility scale power generation plants. He has extensive international experience in the power generation sector with a focus on investment strategy and financing. Mr. MacMillan was also a former Director of Killingholme Power Limited. Mr. MacMillan holds a B.A. and a M.A. of Economics from McGill University.

Board/Committee Membership	2007 Attendance	
Board (since September 2004)	11 of 11	100%
Nuclear Operations Committee (since November 2004)	4 of 4	100%
Major Projects Committee (since November 2004)*	12 of 12	100%

* Chair of Committee

Principal Occupation
Partner – Good Energies

Board Memberships for other Reporting Issuers
InterGen N.V.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Corbin A. McNeill Jr.
Retired Chairman and
Co-Chief Executive Officer,
Exelon Corporation

Age: 68
Jackson, Wyoming, U.S.A.

Corbin McNeill is the retired Chairman and Co-Chief Executive Officer of Exelon Corporation, which was formed by the merger of PECO Energy and Unicom Corp. At PECO, he had been Chairman, President and CEO, having joined PECO in 1988 as Executive Vice President, Nuclear. Prior to PECO, he oversaw nuclear operations at the Public Service Electric and Gas Company and the New York Power Authority. Mr. McNeill currently serves as a Director of Owens-Illinois Inc. and Portland General Electric. Mr. McNeill has a Bachelor of Science degree from the U.S. Naval Academy and has completed the Executive Management Program at Stanford University.

Board/Committee Membership	**2007 Attendance**	
Board (since October 2004)	11 of 11	100%
Governance and Nominating Committee* (since August 2005)	3 of 3	100%
Investment Funds Oversight Committee (since May 2005)	3 of 3	100%
Nuclear Operations Committee (since November 2004)	4 of 4	100%
Nuclear Generation Projects Committee* (since November 2006)	5 of 5	100%

* Chair of Committee

Principal Occupation
Retired Chairman and Co-Chief Executive Officer of Exelon Corporation

Board Memberships for other Reporting Issuers
Owens-Illinois Inc.
Portland General Electric Company

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Peggy Mulligan
Corporate Director

Age: 49
Mississauga, Ontario, Canada

Peggy Mulligan is the former Executive Vice President and Chief Financial Officer of Linamar Corporation. Prior to Linamar, Mrs. Mulligan was with the Bank of Nova Scotia for 11 years as Executive Vice President, Systems and Operations and Senior Vice President, Audit and Chief Inspector. Before joining Scotiabank, she was an Audit Partner with PricewaterhouseCoopers in Toronto. Peggy Mulligan is a Trustee of Resolve Business Outsourcing Income Fund. She holds a B.Math (Honours) from the University of Waterloo and was named an FCA by the Institute of Chartered Accountants of Ontario in 2003.

Board/Committee Membership	**2007 Attendance**	
Board (since December 2005)	10 of 11	91%
Audit and Risk Committee (since February 2006)	4 of 4	100%
Investment Funds Oversight Committee* (since February 2007)	3 of 3	100%

* Chair of Committee

Principal Occupation
Corporate Director

Board Memberships for other Reporting Issuers
Resolve Business Outsourcing Income Fund

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

C. Ian Ross
Chairman,
GrowthWorks
Canadian Fund Ltd.

Age: 65
Collingwood, Ontario, Canada

Ian Ross served at the Richard Ivey School of Business at the University of Western Ontario from 1997 to September 2003. Most recently he held the position of Senior Director, Administration in the Dean's Office, and was also Executive in Residence for the School's Institute for Entrepreneurship, Innovation and Growth. He has served as Governor and President and CEO of Ortech Corporation; Chairman, President and CEO of Provincial Papers Inc.; and President and CEO of Paperboard Industries Corp. Mr. Ross currently serves as a Director for a number of corporations including Menu Foods Income Trust, GrowthWorks Canadian Fund Ltd., PetValu Canada Inc., RuggedCom Ltd., ING Direct Asset Management Limited, eJust Systems (formerly Praeda Management Systems) and the Nuclear Waste Management Organization (NWMO). He is also a member of the Law Society of Upper Canada.

Board/Committee Membership	2007 Attendance	
Board (since December 2003)	11 of 11	100%
Audit and Risk Committee (since November 2004)	4 of 4	100%
Governance and Nominating Committee (since August 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	12 of 12	100%
Nuclear Generation Projects Committee (since November 2006)	5 of 5	100%

Principal Occupation
Chairman, GrowthWorks Canadian Fund Ltd.

Board Memberships for other Reporting Issuers
GrowthWorks Canadian Fund Ltd.
Menu Foods Income Trust
PetValu Canada Inc.
RuggedCom Ltd.
ING Direct Asset Management Limited

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Marie C. Rounding
Counsel,
Gowling Lafleur
Henderson LLP

Age: 60
Toronto, Ontario, Canada

Marie Rounding is Counsel at Gowling Lafleur Henderson LLP where she is a member of the National Energy and Infrastructure Industry Group. On November 1, 2007, she was appointed by Prime Minister Stephen Harper to the Advisory Council on National Security. Ms. Rounding served as Chair of the Ontario Energy Board from 1992 to 1998 and as President and Chief Executive Officer of the Canadian Gas Association from 1998 to 2003. Prior to those appointments she was Director of the Crown Law Office, Civil Law at the Ontario Ministry of the Attorney General.She has extensive background in regulatory and administrative law, and as a leading regulator was involved in the deregulation of the natural gas markets and the early restructuring of the electricity sector in Ontario. Ms. Rounding currently serves as a Director for Nova Scotia Power Inc. and as a member of the Independent Review Committee for Sentry Select Capital Corp. and several related entities. She is a graduate of the University of Western Ontario and Osgoode Hall Law School and is certified by the Institute of Corporate Directors.

Board/Committee Membership	2007 Attendance	
Board (since September 2004)	11 of 11	100%
Compensation and Human Resources Committee (November 2004 – February 2007)	1 of 1	100%
Investment Funds Oversight Committee (since May 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	9 of 12	75%
Nuclear Operation Committee (since February 2007)	3 of 3	100%

Principal Occupation
Counsel, Gowling Lafleur Henderson LLP

Board Memberships for other Reporting Issuers
Nova Scotia Power Inc.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Auditors' Report

To the Shareholder of Ontario Power Generation Inc.

We have audited the consolidated balance sheets of Ontario Power Generation Inc. as at December 31, 2007 and 2006 and the consolidated statements of income, changes in shareholder's equity, comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of Ontario Power Generation Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Power Generation Inc. as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 27, 2008

William Sheffield
Corporate Director

Age: 59
Toronto, Ontario, Canada

William Sheffield is the former Chief Executive Officer of Sappi Fine Paper plc., and a former Executive Vice President of International Operations and Corporate Development at Abitibi Consolidated. He has experience in operating large international industries. He also spent 17 years with Stelco. Mr. Sheffield currently serves on the Boards of Velan Inc., Canada Post, Houston Wire & Cable Company and Corby Distilleries. Mr. Sheffield has a B.Sc. in Chemistry from Carleton University, an M.B.A. from McMaster University and completed the Advanced Management Program at INSEAD School of Business, France and is certified by the Institute of Corporate Directors.

Board/Committee Membership	2007 Attendance	
Board (since September 2004)	11 of 11	100%
Compensation and Human Resources Committee* (since November 2004)	11 of 11	100%
Investment Funds Oversight Committee (since February 2005)	3 of 3	100%
Major Projects Committee (since November 2004)	12 of 12	100%

* Chair of Committee

Principal Occupation
Corporate Director

Board Memberships for other Reporting Issuers
Corby Distilleries Ltd.
Houston Wire & Cable Company
Velan Inc.

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

David G. Unruh
Corporate Director

Age: 63
Vancouver, British Columbia, Canada

David Unruh is a retired lawyer and general counsel currently serving as a director of Union Gas Limited, Pacific Northern Gas Ltd., Corriente Resources Inc., The Wawanesa Mutual Insurance Company, TransLink, Canada Line Rapid Transit Inc., and Globe Foundation of Canada. Prior to this, Mr. Unruh served as Vice Chairman of Westcoast Energy Inc. and Union Gas Limited, before that as Senior Vice President and General Counsel for Houston based Duke Energy Gas Transmission and, before that as Senior Vice President, Law and Corporate Secretary of Westcoast Energy Inc. Mr. Unruh practiced corporate and commercial law in Winnipeg, Manitoba before joining Westcoast Energy Inc. in Vancouver, British Columbia in 1993.

Board/Committee Membership	2007 Attendance	
Board (since September 2004)	11 of 11	100%
Compensation and Human Resources Committee (since November 2004)	11 of 11	100%
Audit/Risk Committee (since November 2004)	4 of 4	100%
Major Projects Committee (since December 2004)	12 of 12	100%

Principal Occupation
Corporate Director

Board Memberships for other Reporting Issuers
Corriente Resources Inc.
Pacific Northern Gas Ltd.
Union Gas Limited

Independence from OPG
Independent

Interlocking Directorships on Boards of other Reporting Issuers
None

Orientation and Continuing Education

The Governance and Nominating Committee is responsible for reviewing and recommending appropriate orientation and education programs to the Board. New directors are provided relevant documentation relating to OPG's governance practices, policies and to its business. Directors attend comprehensive introductory briefing sessions from senior executives on OPG's operations and business and plant tours are provided to OPG generating facilities.

The Board supports the continuing education of directors, in both the business of OPG and their duties as directors. Annual plant tours of major facilities and, based on requests from directors, special presentations by internal and external experts are made to the Board or a Committee on topical business-related issues or on specific aspects of OPG's operations. OPG also sponsors the professional certification of its directors.

Ethical Business Conduct

OPG has a policy for ethical business behaviour and a Code of Business Conduct, which is approved by the Board. The Audit/Risk Committee Charter expressly includes regular reporting by Management on the Code of Business Conduct, including reports on substantiated cases of fraud and the disposition of such cases including disciplinary action. The Audit/Risk Committee also receives an annual report on the Code of Business Conduct in order to satisfy itself that appropriate codes of conduct and compliance programs are in place and are being enforced and remedial action is being taken. A copy of OPG's Code of Business Conduct has been filed on SEDAR (www.sedar.com). The Audit/Risk Committee has also established procedures for the receipt, retention and treatment of complaints received pertaining to internal accounting controls or auditing matters and the confidential anonymous submission by employees concerning such matters.

The Board has adopted an annual process of written disclosure by directors of information in order to: (i) identify potential conflicts of interest for the purposes of complying with the Ontario Business Corporations Act, (ii) validate their independence and financial literacy for the purposes of complying with securities regulations related to Boards and Audit Committees, and (iii) satisfy other disclosures and filings.

Nomination of Directors

The Governance and Nominating Committee's responsibilities are to: (i) develop and maintain a list of optimum skills which the Board should collectively possess, (ii) recommend a process to identify director candidates, (iii) recommend selection criteria, (iv) identify director candidates to the Board and (v) recommend to the Board the candidates to stand for election. The Board submits recommended candidates to the Shareholder. Nominations of directors by the Shareholder are also reviewed by the Governance and Nominating Committee.

The Governance and Nominating Committee consists of four members, three of which are independent of OPG within the meaning of MI 52-110. Dr. Gary Kugler is Chair of the Nuclear Waste Management Organization, an organization which is in effect controlled by OPG by virtue of OPG's proportionately larger financial responsibility for nuclear fuel. The Board of Directors determined that Dr. Kugler's service as Chair does not affect his ability to exercise impartial judgment and fulfill his responsibilities as a member of the Governance and Nominating Committee.

The Board consists of 12 directors.

Compensation

Director Compensation

The Governance and Nominating Committee is responsible for annually monitoring and reviewing the level and nature of compensation of directors. In 2007, the Governance and Nominating Committee recommended that no change be made to the compensation of directors.

Each director who is not an employee of OPG receives an annual retainer of $25,000. Directors also receive a $3,000 annual retainer to chair committees and for each committee that they are a member of. In recognition of the increased duties and responsibilities placed upon the chair of the Audit/Risk Committee as a result of recent regulatory initiatives in North America, the annual retainer for the Audit/Risk Committee chair is $8,000.

Directors are compensated for each meeting that they attend and receive a fee of $1,500 or $750, as determined by the Board or Committee chair.

In order to retain national and international expertise, non-resident directors are compensated in U.S. dollars exchanged at par and directors who travel long distances receive a travel fee to cover travel time related to Board and Committee meetings they attend.

Directors are also reimbursed for travel and other expenses they incur to attend meetings or to perform other duties in their role as a director.

The Chair of the Board in his role as non-executive Chair receives an all-inclusive annual fee of $150,000 and is reimbursed for out-of-pocket expenses including travel and other expenses.

The total compensation paid to the Directors of the Company for the year ended December 31, 2007 was $909,511.

CEO Compensation

The Compensation and Human Resources Committee of the Board consists of four directors, all of whom are independent of OPG. The Committee oversees, on behalf of the Board, the setting of the CEO's annual goals and objectives and the annual review of CEO performance, and makes recommendations to the Board with respect to CEO compensation. The Compensation and Human Resources Committee seeks input from an independent advisor with regard to monitoring and benchmarking compensation developments.

During 2007, the Compensation and Human Resources Committee of the Board retained an independent advisor from Mercer Human Resource Consulting, to benchmark the compensation package for the President and CEO and to confirm that the compensation package is appropriate given the nature, complexity and risk profile of OPG's business. The Compensation and Human Resources Committee submitted its recommendation to the Board for approval. The Chair of the Compensation and Human Resource Committee and the Board Chair subsequently informed the Shareholder.

Board Committees

The Board has established seven committees to focus on areas critical to the Company:

Audit/Risk Committee

The Committee is responsible for reviewing the Company's regulatory filings including financial statements, MD&A, and press releases prior to their disclosures to the public. The Committee is also responsible for overseeing the internal audit function, the work of external auditors including their nomination and compensation, that the Company has adequate controls in the financial reporting process and the risk management process, and is in compliance with regulatory and internal policies. The Committee is also responsible for overseeing OPG's policy on ethical behaviour and the Code of Business Conduct, including reports on compliance programs, substantiated cases of fraud and the disposition of such cases including disciplinary action.

Compensation and Human Resources Committee

This Committee focuses on human resources related areas including compensation practices, CEO objectives and compensation, disclosure on compensation and human resources matters, leadership talent review including succession planning, human resources policies related to employee complaints, diversity and pay equity, organizational design, labour relations, pension plans and policies, and Board compensation, education and evaluation programs.

Governance and Nominating Committee

The Committee develops governance principles for OPG that are consistent with high standards of corporate governance and reviewing and assessing on an ongoing basis OPG's system of corporate governance with a view to maintaining these high standards. The Committee identifies and recommends candidates for election or appointment to the Board to be put before the Shareholder in the event of a vacancy on the Board. Finally, the Committee reviews and recommends OPG's processes for director orientation, assessment, and compensation.

Investment Funds Oversight Committee

This Committee assists the Board in fulfilling its responsibilities for the OPG Pension Fund, the Used Fuel Fund and Decommissioning Fund. The Committee provides oversight of the investment of assets, investment-related liabilities and the management of any surplus (deficit) of the funds. Specifically the Committee: reviews the investment policies, risks and the asset mix; approves annual performance objectives for the investment portfolios; and monitors the performance of the funds.

Major Projects Committee

This Committee assists the Board in providing oversight of major non-nuclear electricity supply projects, including project development, contracting, financing, and construction monitoring.

Nuclear Generation Projects Committee

This Committee was formed in 2006 following direction from the Shareholder to: (i) begin feasibility studies on refurbishing its existing nuclear units, and (ii) to begin a federal approvals process, including an environmental assessment, for new nuclear units at an existing site. This Committee assists the Board in providing oversight of the new nuclear plant projects and the refurbishment and life extension projects for existing nuclear plants.

Nuclear Operations Committee

This Committee is responsible for oversight of safe and efficient operations of OPG's nuclear business, regulatory compliance of OPG's nuclear facilities, review of reports from independent oversight of OPG's nuclear operations, reviews of OPG's nuclear management and organization matters, security of OPG's nuclear facilities and substances, and oversight of OPG's nuclear waste and decommissioning liabilities and management.

Assessments

The Governance and Nominating Committee is responsible for the annual process for evaluating the performance of the Board, its Committees and its individual directors. The Board and Committee evaluations are based upon the completion of confidential questionnaires regarding assessment of its performance and the compliance with the Board and Committee Charters. Director evaluations are based on self-assessment questionnaires, which are submitted in confidence to the Board Chair and the Chair of the Governance and Nominating Committee. The annual process is overseen by the Chair of the Governance and Nominating Committee, who reports the results and recommendations for enhancing oversight to the Board.

Further Information on OPG Governance

OPG provides additional information on OPG's governance on its website (www.opg.com) including:

- Memorandum of Agreement
- Shareholder Directives
- Board and Committee Charters
- Board and Committee Chair Position Descriptions
- Code of Business Conduct
- Disclosure Policy
- Environment Policy
- Health and Safety Policy

Audit/Risk Committee Information

MI 52-110, Audit Committees, has been implemented by Canadian securities regulatory authorities to encourage reporting issuers to establish and maintain strong, effective and independent audit committees, which enhance the quality of financial disclosure and ultimately foster increased investor confidence in Canada's capital markets. Information on OPG's Audit/Risk Committee, which includes the text of the Audit/Risk Committee Charter, is as follows:

Audit/Risk Committee Charter

Purpose

The purpose of the Audit/Risk Committee (the "Committee") is to assist the Board in fulfilling its oversight responsibilities by reviewing, advising and making recommendations to the Board on:

- The integrity, quality and transparency of the Company's financial information,
- The adequacy of the financial reporting process,
- The systems of internal controls and risk management, and the Company's related principles, policies and procedures which Management have established,
- The performance of the Company's internal audit function and the external auditors,
- The external auditors' qualifications and independence,
- The Company's compliance with related legal and regulatory requirements and internal policies, and
- The promotion of a culture of ethical business conduct and compliance with OPG's Code of Business Conduct.

The function of the Audit/Risk Committee is oversight. Management is responsible for the preparation, presentation and integrity of the consolidated financial statements of the Company. Management of the Company is responsible for maintaining appropriate accounting and financial reporting principles and policy and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations.

Organization

Members

The Audit/Risk Committee shall consist of three or more independent Directors appointed by the Board of Directors, none of whom shall be employees of the Company or any of the Company's affiliates. A majority of the members of the Committee, but not less than two, will constitute a quorum. As a venture issuer, OPG is exempt from the statutory requirements of Multilateral Instrument 52-110 requiring members of Audit Committees to be independent. However, OPG considers such independence to be "best practice" and, therefore, each of the members of the Audit/Risk Committee shall satisfy the applicable independence and financial literacy requirements of the laws and regulations governing Audit Committees.

The Board of Directors shall designate one member of the Audit/Risk Committee as the Committee Chair. Members of the Audit/Risk Committee shall serve at the pleasure of the Board of Directors for such term or terms as the Board of Directors may determine. The Board of Directors shall confirm that each member of the Audit/Risk Committee is financially literate as such qualification is interpreted by the Board of Directors in its business judgment and in compliance with Multilateral Instrument 52-110 and its Companion Policy.

Meetings

The Committee will meet at least quarterly or more frequently as circumstances require and at any time at the request of a member. The Committee will meet regularly and at least annually with the external auditors, the internal auditors and Management in separate sessions to discuss any matters that the Committee believes should be discussed and to provide a forum for any relevant issues to be raised.

Reports

The Committee will report its activities and actions to the Board of Directors with recommendations, as the Committee deems appropriate.

The Committee will provide for inclusion in the Company's financial information or regulatory filings any report from the Audit/Risk Committee required by applicable laws and regulations and stating among other things whether the Audit/Risk Committee has:

- Reviewed and discussed the audited consolidated financial statements with Management,
- Discussed pertinent matters with the internal and external auditors,
- Received disclosures from the external auditors regarding the auditors' independence and discussed with the auditors their independence, and
- Recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report.

Authority

While the Audit/Risk Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit/Risk Committee to plan or conduct audits or risk assessments, or to determine that the Company's consolidated financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibility of Management and the external auditor.

In carrying out its oversight responsibilities, the Audit/Risk Committee and the Board will necessarily rely on the expertise, knowledge and integrity of the Company's Management, and internal and external auditors.

The Audit/Risk Committee shall have the authority to set and pay the compensation for any advisors employed by the Committee.

The Audit/Risk Committee shall have the authority to communicate directly with the internal and external auditors.

Delegation of Authority

The Committee may delegate to any employee of OPG or a sub-committee the authority to: (i) execute or carry out any decision of the Committee; and/or (ii) exercise any right, power or function of the Committee on such terms and conditions and within such limits as the Committee may establish, except that the Committee may not delegate its oversight responsibilities.

Access to Management and Outside Advisors

The Audit/Risk Committee shall have unrestricted access to members of Management and relevant information. The Audit/Risk Committee may retain independent counsel, accountants or other advisors to assist it in the conduct of any investigation, as it determines necessary to carry out its duties.

Committee Responsibilities and Duties

The Committee shall:

General

- Conduct or authorize investigations into any matters within the Committee's scope of responsibilities, and
- Review and recommend approval to the Board, the appointment or replacement of the CFO and the CRO.

Risk Management and Internal Controls

- Review and evaluate the Company's policies and processes for assessing significant risks or exposures and the steps Management has taken to monitor and control such risks to the Company, including the organizational structure and the adequacy of resources;
- Consider and review with the CRO and Management the critical risks to the Company, the potential impact of such risks, and related mitigation;
- Ascertain whether the Company has an effective process for determining risks and exposure from actual and potential litigation and claims relating to non-compliance with laws and regulations;
- Review with Management, reports demonstrating compliance with risk management policies;
- Review with the Company's General Counsel and others any legal, tax, or regulatory matters that may have a material impact on Company operations and the financial statements, including, but not limited to, violations of securities law or breaches of fiduciary duty;
- Review with Management, internal audit, and the external auditors, the scope of review of internal control over financial reporting, significant findings, recommendations and Management's responses for implementation of actions to correct weaknesses in internal controls;
- Review disclosures made by the CEO and CFO during the certification process regarding significant deficiencies in the design or operation of internal controls or any fraud that involves Management or other employees who have a significant role in the Company's internal controls; and
- Review the expenses of the Chairman, Board, President and the President's direct reports on a semi-annual basis, and of any other senior officers and employees the Committee considers appropriate.

Internal Audit

- Evaluate the internal audit process and define expectations in establishing the annual internal audit plan and the focus on risk, including the organizational structure and the adequacy of resources,
- Approve the Charter of the internal audit function annually,
- Evaluate the audit scope and role of internal audit, and
- Consider and review with the CRO and Management:
  - Significant findings and Management's response including the timetable for implementation of Management Actions to correct weaknesses,
  - Any difficulties encountered in the course of their audit (such as restrictions on the scope of their work or access to information),
  - Any changes required in the planned scope of the audit plan, and
  - The internal audit budget.

External Auditor

- Recommend to the Board of Directors the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, and the compensation of the external auditor;
- Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between Management and the external auditor regarding financial reporting;
- Review the independence and qualifications of the external auditor;
- At least annually, obtain and review a report by the external auditor describing the auditing firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the auditing firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor and any steps taken to deal with any such issues and all relationships between the external auditors and the Company;

- Review the scope and approach of the annual audit plan with the external auditors;
- Discuss with the external auditor the quality and acceptability of the Company's accounting principles including all critical accounting policies and practices used, any alternative treatments that have been discussed with Management as well as any other material communications with Management;
- Assess the external auditor's process for identifying and responding to key audit and internal control risks;
- Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider regular rotation of the audit firm;
- Evaluate the performance of the external auditor annually and present its findings to the Board of Directors;
- Determine which non-audit services the external auditor is prohibited by law or regulation, or as determined by the Audit/Risk Committee, from providing and pre-approve all services provided by the external auditors. The Committee may delegate such pre-approval authority to a member of the Committee. The decision of any Committee member to whom pre-approval authority is delegated must be presented to the full Audit/Risk Committee at its next scheduled meeting;
- Review and approve all related party transactions; and
- Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

Financial Reporting

- Review with Management and the external auditors the Company's interim financial information and disclosures under MD&A and earnings press release, prior to filing;
- Satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's consolidated financial statements, other than the public disclosure referred to above, and periodically assess the adequacy of those procedures;
- Review with Management and the external auditors, at the completion of the annual audit:
  - The Company's annual financial statements, MD&A, related footnotes and any documentation required by the Securities Act to be prepared and filed by the Company or that the Company otherwise files with the OSC;
  - The external auditors' audit of the consolidated financial statements and their report;
  - Any significant changes required in the external auditors' audit plan;
  - Any difficulties or disputes with Management encountered during the audit;
  - The Company's accounting principles, and
  - Other matters related to conduct, which should be communicated to the Committee under generally accepted auditing standards.
- Review significant accounting and reporting issues and understand their impact on the consolidated financial statements. These include complex or unusual transactions and highly judgmental areas; major issues regarding accounting principles and financial presentations, including significant changes in the Company's selection or application of accounting principles; and the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the consolidated financial statements of the Company;
- Review analysis prepared by Management and/or the external auditor detailing financial reporting issues and judgments made in connection with the preparation of financial information, including analysis of the effects of alternative Generally Accepted Accounting Principles methods; and
- Advise Management, based upon the Audit/Risk Committee's review and discussion, whether anything has come to the Committee's attention that causes it to believe that the consolidated financial statements contain an untrue statement of material fact or omit to state a necessary material fact.

Compliance with Code of Business Conduct

- Review the administration of and compliance with the Company's Code of Business Conduct to ensure that appropriate codes of conduct and compliance programs are in place, are being enforced and remedial action is being taken, as well as the process for communicating the Code of Business Conduct to Company personnel; and
- Monitor through regular updates from Management regarding compliance matters.

Treatment of Complaints

- Establish procedures for the receipt, recording and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
- Establish procedures for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters of the Company.

Annual Review and Assessment

The Committee shall conduct an annual review and assessment of its performance, including a review of its compliance with this Charter, in accordance with the evaluation process approved by the Board.

The Committee shall also review and assess the adequacy of this Charter on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators with whom OPG has a reporting relationship, and if appropriate, shall recommend changes to the Board.

Composition of the Audit/Risk Committee

OPG's Audit/Risk Committee consists of George Lewis, Gary Kugler, Peggy Mulligan, Ian Ross and David Unruh. As a venture issuer, OPG is not subject to the rules governing the composition and independence of audit committees which are established by MI 52-110. However, OPG's Board of Directors has determined to follow best practices and constitute the Audit/Risk Committee in accordance with the requirements of MI 52-110. The Board of Directors has concluded that all of the members of the committee are financially literate, within the meaning of MI 52-110. In addition, the Board of Directors has concluded that four of the five members of the Committee are independent of OPG and its subsidiaries within the meaning of MI 52-110. At the request of the Board of Directors, Dr. Kugler serves as a Director and Chairman of the Nuclear Waste Management Organization, an organization which is in effect controlled by OPG by virtue of OPG's proportionately larger financial responsibility for nuclear fuel. The Board of Directors believes that Dr. Kugler's service as Chairman is in the best interests of OPG, the NWMO, and OPG's stakeholders, in view of his experience and extensive knowledge of the Canadian nuclear industry, and does not affect his ability to exercise impartial judgment and fulfill his responsibilities as a member of the OPG Audit/Risk Committee. In view of OPG's nuclear operations and related financial and waste management obligations, Dr. Kugler's experience and knowledge is also considered a key input to the planning and risk management components of the Committee's mandate. As a result, OPG's Board of Directors has determined that it is appropriate for Dr. Kugler to serve as a non-independent member of that Committee, in accordance with section 3.3(2) of MI 52-110.

Relevant Education and Experience

Financially literate means having the ability to read and understand the accounting principles used by OPG to prepare its consolidated financial statements, and the ability to address the breadth and level of complex accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by OPG's consolidated financial statements. Each member had an understanding of internal controls and procedures for financial reporting. The education and experience of each Audit/Risk Committee member that are relevant to his or her performance as an audit committee member may be found in the *Corporate Governance* section.

Audit/Risk Committee Oversight

There have been no recommendations of the Audit/Risk Committee to nominate or compensate an external auditor which have not been adopted by the Board of Directors.

External Auditor Service Fees

The following fees were billed by Ernst & Young LLP:

(thousands of dollars)	**2007**	2006
Audit Fees	**1,253**	1,250
Audit-Related Fees	**259**	335
Tax Fees and Other	**118**	300

Audit Fees

These fees included the audit of OPG's consolidated financial statements, quarterly reviews of the financial statements, and the pension fund audits.

Audit-Related Fees

These fees included work with respect to internal controls, accounting assistance, French translation of consolidated financial statements and MD&A, and special audits and reviews. During 2007, OPG has employed the services of other professional advisers, particularly in the areas of internal controls and accounting assistance.

Tax Fees and Other

These fees included tax services related to assistance with matters raised by the Tax Auditors for the 1999 taxation year and a United States state tax review.

Internal Controls over Financial Reporting and Disclosure Controls

Management, including the President and CEO and Chief Financial Officer (CFO), are responsible for maintaining disclosure controls and procedures and internal control over financial reporting. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and CEO and the CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with GAAP.

An evaluation of the effectiveness of design and operation of OPG's disclosure controls and procedures was conducted as of December 31, 2007. Management, including the President and the CEO and the CFO, has evaluated the effectiveness of OPG's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, of the Canadian Securities Administrators) as of December 31, 2007. Management has concluded that, as of December 31, 2007, OPG's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to OPG and its consolidated subsidiaries and interests in jointly controlled entities would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and has concluded, as of December 31, 2007, that the design of internal controls over financial reporting was effective.

There were no material changes in internal control over financial reporting in OPG's most recent interim period that have materially affected or are reasonably likely to materially affect OPG's internal control over financial reporting.

Fourth Quarter

Overview of Results

Net income for the three months ended December 31, 2007 was $119 million compared to a net loss of $19 million for the same period in 2006. Loss before income taxes for the three months ended December 31, 2007 was $44 million compared to loss before income taxes of $82 million for the same period in 2006.

During the fourth quarter of 2007, there was a net income tax recovery of $163 million, compared to $63 million for the same period in 2006. The increase in income tax recoverable was largely due to the additional contribution to the Used Fuel Fund of $334 million during the fourth quarter of 2007. In addition, the income tax expense was favourably impacted by a reduction in federal future income tax rates that were substantively enacted during the fourth quarter of 2007.

The following is a summary of the factors impacting OPG's results for the three months ended December 31, 2007 compared to results for the same period in 2006, on a before-tax basis:

(millions of dollars – before tax) (unaudited)

Loss before income taxes for the three months ended December 31, 2006	**(82)**
Changes in gross margin	
Increase in electricity sales price after revenue limit rebate and hedging margin	13
Change in electricity generation by segment:	
Regulated – Nuclear	31
Regulated – Hydroelectric	(9)
Unregulated – Hydroelectric	(29)
Unregulated – Fossil-Fuelled	3
Increase in revenue due to the Lennox reliability must run contract	14
Other changes in gross margin	2
	25
Increase in amortization of the Pickering A return to service deferral account balance	(16)
Decrease in earnings on nuclear fixed assets removal and nuclear waste management funds	(8)
Other changes	5
Increase in income before other gains and losses and income taxes	**6**
Impairment of long-lived assets – 2006	22
Other gains and losses – 2007	10
Loss before income taxes for the three months ended December 31, 2007	**(44)**

Earnings for the three months ended December 31, 2007 were favourably impacted by an increase in gross margin due primarily to higher generation from nuclear and fossil-fuelled generating stations and higher electricity prices net of revenue limit rebate. The gross margin was also favourably impacted by revenue from the Lennox RMR contract. In December 2007, the OEB approved a third one-year term contract, which ends September 30, 2008. The increase in gross margin was partially offset by lower generation from OPG's hydroelectric facilities.

The demolition of the former Lakeview coal-fired generating station was substantially completed during 2007. During the fourth quarter of 2007, the Company re-estimated the costs to complete the remaining work to remediate the site in 2008. As a result, OPG recorded a recovery of $20 million in other gains and losses to reflect a change in the estimated costs.

During the fourth quarter of 2007, OPG recorded impairment losses of $10 million in other gains and losses related to the fair market value of its third-party ABCP holdings.

During the fourth quarter of 2006, OPG recognized an impairment loss of $22 million on the Thunder Bay and Atikokan coal-fired generating stations, which represented the carrying amount or net book value of these stations. The impairment charge was recorded in other gains and losses.

Discussion of Operating Results

	Three Months Ended December 31	
(millions of dollars) (unaudited)	**2007**	2006
Revenue, net of revenue limit rebate	**1,342**	1,276
Fuel expense	**308**	267
Gross margin	**1,034**	1,009
Operations, maintenance and administration	**815**	806
Depreciation and amortization	**176**	164
Accretion on fixed asset removal and nuclear waste management liabilities	**126**	124
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(89)**	(97)
Property and capital taxes	**19**	24
(Loss) income before other gains and losses, interest and income taxes	**(13)**	(12)
Other (gains) and losses	**(10)**	22
Loss before interest and income taxes	**(3)**	(34)

Revenue

	Three Months Ended December 31	
(millions of dollars) (unaudited)	**2007**	2006
Regulated generation sales[1]	**681**	665
Spot market sales, net of hedging instruments	**519**	453
Revenue limit rebate	**(51)**	(13)
Variance accounts	**7**	(4)
Other	**186**	175
Total revenue	**1,342**	1,276

[1] Regulated generation sales included revenue of $31 million and $46 million that OPG received at the Ontario electricity spot market price for Regulated – Hydroelectric generation over 1,900 MWh in any hour during the fourth quarter of 2007 and 2006, respectively.

Revenue

Revenue was $1,342 million for the three months ended December 31, 2007 compared to $1,276 million during the same period in 2006. The increase of $66 million was primarily due to a higher electricity sales price, net of revenue limit rebate, and increased generation volume.

Electricity Prices

OPG's average sales price for the three months ended December 31, 2007 was 4.6¢/kWh compared to 4.5¢/kWh for the same period in 2006. The increase was primarily due to a higher revenue limit for electricity generation from OPG's unregulated facilities and a higher average hourly Ontario spot electricity market price during the fourth quarter of 2007 compared to the same quarter in 2006.

Fuel Expense

Fuel expense was $308 million for the three months ended December 31, 2007 compared to $267 million during the same period in 2006. The increase of $41 million was primarily due to higher generation of 1.0 TWh from OPG's fossil-fuelled generating stations.

Operations, Maintenance and Administration

OM&A expenses for the three months ended December 31, 2007 were $815 million compared to $806 million during the same period in 2006. The increase in OM&A expenses was primarily due to higher OM&A expense related to the Unregulated – Fossil-Fuelled segment in the fourth quarter of 2007.

Earnings on Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Earnings on the Nuclear Funds during the fourth quarter of 2007 were $89 million compared to $97 million for the same period in 2006. The decrease in earnings of $8 million was primarily due to additional earnings recorded in 2006 as a result of the revision to the ONFA reference plan, which did not recur in 2007, and a lower long-term target rate of return on the Decommissioning Fund as specified in the 2006 ONFA Approved Reference Plan. The decrease in earnings was partially offset by the impact of higher Nuclear Fund investments and a higher Ontario CPI in the fourth quarter of 2007 compared to the same quarter in 2006.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices by reportable business segment, net of the revenue limit rebate for the three months ended December 31, 2007 and 2006, were as follows:

(¢/kWh)	Three Months Ended December 31	
	2007	2006
Weighted average hourly Ontario spot electricity market price	**5.1**	4.5
Regulated – Nuclear	**4.9**	4.9
Regulated – Hydroelectric	**3.5**	3.5
Unregulated – Hydroelectric	**4.7**	4.5
Unregulated – Fossil-Fuelled	**4.8**	4.6
OPG's average sales price	**4.6**	4.5

As a result of regulated prices and the revenue limit rebate, OPG's average sales price was lower than the weighted average hourly Ontario spot electricity market price.

Electricity Generation

Total electricity sales volume for the three months ended December 31, 2007 was 24.7 TWh compared to 24.3 TWh during the same period in 2006. The increase was primarily due to higher generation from OPG's fossil-fuelled and nuclear generating stations, partially offset by lower generation from OPG's hydroelectric facilities. The higher generation from OPG's nuclear generating stations for the three months ended December 31, 2007 compared to the same period in 2006 was primarily due to lower outage days. The lower electricity sales volume from OPG's hydroelectric facilities during the fourth quarter of 2007 compared to the same quarter in 2006 was primarily due to lower water levels in Eastern Ontario.

During the fourth quarter of 2007 and 2006, the primary electricity demand in Ontario was 37.7 TWh and 37.5 TWh, respectively. The higher primary demand in Ontario during the fourth quarter of 2007 was in part due to colder temperatures in November and December of 2007 compared to the same months in 2006.

Liquidity and Capital Resources

Cash flow used in operating activities during the three months ended December 31, 2007 was $316 million compared to cash flow provided by operating activities of $91 million for the three months ended December 31, 2006. The unfavourable change in cash flow was primarily due to the one-time contribution of $334 million to the Used Fuel Fund related to the Bruce Lease and higher operating and maintenance expenditures.

Investment in fixed assets during the three months ended December 31, 2007 was $190 million compared with $215 million during the same period in 2006. The decrease in capital expenditures of $25 million was primarily due to lower expenditures for the Niagara Tunnel project.

Cash flow provided by financing activities during the three months ended December 31, 2007 was $449 million compared to cash flow used in financing activities of $45 million for the three months ended December 31, 2006. The increase in cash flow was primarily due to the issuance of long-term debt under the general corporate facilities of $400 million in the fourth quarter of 2007.

Quarterly Financial Highlights

The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the twelve most recently completed quarters. This financial information has been prepared in accordance with Canadian GAAP.

	2007 Quarters Ended				
(millions of dollars) (unaudited)	**December 31**	**September 30**	**June 30**	**March 31**	**Total**
Revenue, net of revenue limit rebate	**1,342**	**1,421**	**1,373**	**1,524**	**5,660**
Net income	**119**	**113**	**125**	**171**	**528**
Net income per share	**$0.46**	**$0.44**	**$0.49**	**$0.67**	**$2.06**

	2006 Quarters Ended				
(millions of dollars) (unaudited)	December 31	September 30	June 30	March 31	Total
Revenue, net of revenue limit rebate	1,276	1,435	1,345	1,508	5,564
Net (loss) income	(19)	167	143	199	490
Net (loss) income per share	$(0.08)	$0.65	$0.56	$0.78	$1.91

	2005 Quarters Ended				
(millions of dollars) (unaudited)	December 31	September 30	June 30	March 31	Total
Revenue, net of revenue limit and Market Power Mitigation Agreement rebates	1,496	1,571	1,373	1,358	5,798
Income (loss) before extraordinary item	160	181	137	(38)	440
Income (loss) before extraordinary item per share	$0.62	$0.71	$0.53	$(0.15)	$1.71
Net income (loss)	160	181	63	(38)	366
Net income (loss) per share	$0.62	$0.71	$0.25	$(0.15)	$1.43

Balance Sheet as at December 31 (millions of dollars)	**2007**	2006	2005
Total assets	**24,839**	22,750	21,623
Total long-term liabilities	**16,494**	15,408	13,640
Cash dividend declared per share (dollars)	**–**	$0.50	–
Common shares outstanding (millions)	**256.3**	256.3	256.3

OPG's quarterly results are impacted by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter.

Additional items which impacted net income (loss) in certain quarters above include the following:

- Lower OM&A expenses due to the deferral of non-capital costs related to the planned return to service of all units at the Pickering A nuclear generating station, beginning January 1, 2005, as required by a regulation pursuant to the Electricity Restructuring Act, 2004 (Ontario);
- Impairment loss on the Lennox generating station of $202 million recorded during the first quarter of 2005, reflecting the amount of the carrying value of the station;

- Lower income tax expense due to the use of the taxes payable method for the regulated segments commencing April 1, 2005;
- Impairment loss of $63 million related to Units 2 and 3 of the Pickering A nuclear generating station, recorded in the second quarter of 2005;
- One-time extraordinary loss of $74 million recorded in the second quarter of 2005, resulting from the adoption of rate-regulated accounting and the corresponding use of the taxes payable method;
- Write-off of $22 million and $35 million of excess inventory as a result of not returning Pickering A nuclear generating station Units 2 and 3 to service, recorded in the third and fourth quarters of 2005 respectively;
- Higher depreciation expense related to the return to service of Unit 1 at the Pickering A generating station in the fourth quarter of 2005;
- Decrease in depreciation expense primarily due to the extension of service lives, for accounting purposes, of the Nanticoke generating station, Pickering B generating station and Unit 4 of the Pickering A generating station beginning in the first quarter of 2006;
- Higher pension and OPEB costs during 2006 and 2007 compared to 2005 mainly due to changes in economic assumptions used to measure the costs;
- Write-off of $13 million for costs incurred on the Thunder Bay conversion project due to a Shareholder Declaration that effectively cancelled the project during the second quarter of 2006;
- Decrease in depreciation expense primarily due to extension of the service life, for accounting purposes, of all coal-fired generating stations to December 31, 2012, beginning in the third quarter of 2006;
- Impairment loss on the Thunder Bay and Atikokan coal-fired generating stations of $22 million, reflecting the carrying value of the stations, during the fourth quarter of 2006;
- Higher OM&A expense in 2007 primarily due to higher outage and other maintenance expenditures at OPG's nuclear and fossil-fuelled generating stations, and expenses related to past grievances by First Nations;
- Decrease in gross margin from electricity sales during the first quarter of 2007 primarily due to lower generation from OPG's nuclear generating stations as a result of an unplanned outage during the first quarter of 2007 at the Pickering B nuclear generation station caused by an inadvertent release of resin by a third-party contractor from the water treatment plant into the demineralized water system, and the requirement for maintenance related to the recovery of the resin. In addition, nuclear generation was also impacted by an extension to a planned outage during the first quarter of 2007 at the Pickering A nuclear generating station for significant additional repair work required as a result of a component failure during inspection;
- Higher earnings from the Nuclear Funds during the second quarter of 2007 primarily due to a higher Ontario CPI during the second quarter of 2007, which impacted the guaranteed return on the Used Fuel Fund. In addition, the increase in earnings also reflected a reimbursement from the Nuclear Funds for expenditures related to the safe storage of Pickering A Units 2 and 3; and
- Lower gross margin primarily due to lower nuclear generation during the three months ended September 30, 2007 as a result of the shutdown of the Pickering A nuclear generating station Units 1 and 4 to perform modifications on a backup electrical system.

Supplemental Earnings Measures

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, audited consolidated financial statements as at and for the years ended December 31, 2007 and 2006 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and therefore may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements and notes thereto utilize these measures in assessing the Company's financial performance from ongoing operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operatingperformance. The definitions of the non-GAAP financial measures are as follows:

(1) **Gross margin** is defined as revenue less revenue limit rebate and fuel expense.

(2) **Earnings** are defined as net income

For further information, please contact:

Investor Relations	416-592-6700 1-866-592-6700 investor.relations@opg.com
Media Relations	416-592-4008 1-877-592-4008

www.opg.com

www.sedar.com

Statement of Management's Responsibility for Financial Information

Ontario Power Generation Inc.'s ("OPG") management is responsible for presentation and preparation of the annual consolidated financial statements and Management's Discussion and Analysis ("MD&A").

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Ontario Securities Commission ("OSC"), as applicable. The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators and its related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. Something is considered material if it is reasonably expected to have a significant impact on the Company's earnings, cash flow, value of an asset or liability, or reputation. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

In meeting our responsibility for the reliability of financial information, we maintain and rely on a comprehensive system of internal controls and internal audit, including organizational and procedural controls and internal controls over financial reporting. Our system of internal controls includes written communication of our policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority and personal accountability; careful selection and training of personnel; and sound and conservative accounting policies, which we regularly update. This structure ensures appropriate internal control over transactions, assets and records. We also regularly audit internal controls. These controls and audits are designed to provide us with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition, liabilities are recognized, and we are in compliance with all regulatory requirements.

Management, including the President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of OPG's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of December 31, 2007. Management concluded that, as of December 31, 2007, OPG's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to OPG and its consolidated subsidiaries and interests in jointly controlled entities would be made known to them by others within those entities, particularly during the period in which this report was being prepared.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Accordingly, we, as OPG's Chief Executive Officer and Chief Financial Officer, will certify OPG's annual disclosure documents filed with the OSC, which includes attesting to the design and effectiveness of OPG's disclosure controls and procedures and the design of internal control over financial reporting.

The Board of Directors, based on recommendations from its Audit/Risk Committee, reviews and approves the consolidated financial statements and the MD&A, and oversees management's responsibilities for the presentation and preparation of financial information, maintenance of appropriate internal controls, management and control of major risk areas and assessment of significant and related party transactions.

The consolidated financial statements have been audited by Ernst & Young LLP, independent external auditors appointed by the Board of Directors. The Auditors' Report outlines the auditors' responsibilities and the scope of their examination and their opinion on OPG's consolidated financial statements. The independent external auditors, as confirmed by the Audit and Risk Committee, had direct and full access to the Audit and Risk Committee, with and without the presence of management, to discuss their audit and their findings therefrom, as to the integrity of OPG's financial reporting and the effectiveness of the system of internal controls.

Jim Hankinson
President and Chief Executive Officer

Donn W. J. Hanbidge
Chief Financial Officer

February 27, 2008

Consolidated Statements of Income

Years Ended December 31 (millions of dollars except where noted)	**2007**	2006
Revenue (Note 19)		
Revenue before revenue limit rebate	**5,887**	5,725
Revenue limit rebate (Note 16)	**(227)**	(161)
	5,660	5,564
Fuel expense	**1,270**	1,098
Gross margin	**4,390**	4,466
Expenses (Note 19)		
Operations, maintenance and administration	**2,974**	2,752
Depreciation and amortization (Note 5)	**695**	689
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	**507**	499
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 10)	**(481)**	(371)
Property and capital taxes	**85**	106
	610	791
Income before the following:		
Other (gains) and losses (Note 17)	**(10)**	22
Income before interest and income taxes	**620**	769
Net interest expense	**143**	193
Income before income taxes	**477**	576
Income tax (recovery) expense (Note 11)		
Current	**1**	60
Future	**(52)**	26
	(51)	86
Net income	**528**	490
Basic and diluted income per common share (dollars)	**2.06**	1.91
Common shares outstanding (millions)	**256.3**	256.3

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31 (millions of dollars)	**2007**	2006
Operating activities		
Net income	**528**	490
Adjust for non-cash items:		
Depreciation and amortization (Note 5)	**695**	689
Accretion on fixed asset removal and nuclear waste management liabilities (Note 10)	**507**	499
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 10)	**(481)**	(371)
Pension cost (Note 12)	**243**	218
Other post employment benefits and supplementary pension plans (Note 12)	**244**	255
Future income taxes (Note 11)	**(52)**	26
Transition rate option contracts	**–**	(12)
Mark-to-market on derivative instruments	**1**	(29)
Provision for used nuclear fuel	**30**	33
Regulatory assets and liabilities (Note 7)	**(11)**	2
Other (gains) and losses (Note 17)	**(10)**	22
Provision for other liabilities	**54**	22
Other	**25**	(11)
	1,773	1,833
Contributions to nuclear fixed asset removal and nuclear waste management funds (Note 10)	**(788)**	(454)
Expenditures on fixed asset removal and nuclear waste management (Note 10)	**(200)**	(164)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management (Note 10)	**119**	19
Contributions to pension fund (Note 12)	**(268)**	(261)
Expenditures on other post employment benefits and supplementary pension plans (Note 12)	**(73)**	(69)
Revenue limit rebate (Note 16)	**(167)**	(860)
Expenditures on restructuring	**(2)**	(8)
Net changes to other long-term assets and liabilities	**(56)**	(116)
Changes in non-cash working capital balances (Note 23)	**69**	477
Cash flow provided by operating activities	**407**	397
Investing activities		
Increase in regulatory assets (Note 7)	**(58)**	(13)
Investment in fixed assets (Notes 5 and 18)	**(666)**	(637)
Cash and cash equivalents transferred to long-term investments (Note 6)	**(58)**	–
Cash flow used in investing activities	**(782)**	(650)
Financing activities		
Issuance of long-term debt (Note 9)	**900**	270
Repayment of long-term debt (Note 9)	**(406)**	(806)
Dividend paid	**–**	(128)
Net (decrease) increase in short-term notes (Note 8)	**(15)**	15
Cash flow provided by (used in) financing activities	**479**	(649)
Net increase (decrease) in cash and cash equivalents	**104**	(902)
Cash and cash equivalents, beginning of year	**6**	908
Cash and cash equivalents, end of year	**110**	6

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31
(millions of dollars)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	**110**	6
Accounts receivable (Notes 4 and 19)	**315**	230
Fuel inventory (Note 18)	**604**	669
Prepaid expenses	**35**	26
Future income taxes (Note 11)	**12**	–
Materials and supplies (Note 18)	**125**	112
	1,201	1,043
Fixed assets (Notes 5 and 18)		
Property, plant and equipment	**17,772**	17,136
Less: accumulated depreciation	**4,995**	4,375
	12,777	12,761
Other long-term assets		
Deferred pension asset (Note 12)	**731**	706
Nuclear fixed asset removal and nuclear waste management funds (Note 10)	**9,263**	7,594
Long-term investments (Notes 6 and 21)	**93**	32
Long-term materials and supplies (Note 18)	**353**	326
Regulatory assets (Note 7)	**356**	251
Long-term accounts receivable and other assets	**65**	37
	10,861	8,946
	24,839	22,750

See accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at December 31

(millions of dollars)	**2007**	2006
Liabilities		
Current liabilities		
Accounts payable and accrued charges (Notes 12 and 19)	**953**	989
Revenue limit rebate payable (Note 16)	**100**	40
Short-term notes payable (Note 8)	**–**	15
Long-term debt due within one year (Note 9)	**407**	406
Future income taxes (Note 11)	**–**	3
Deferred revenue due within one year	**12**	12
Income and capital taxes payable (Note 11)	**66**	128
	1,538	1,593
Long-term debt (Note 9)	**3,446**	2,953
Other long-term liabilities		
Fixed asset removal and nuclear waste management (Note 10)	**10,957**	10,520
Other post employment benefits and supplementary pension plans (Note 12)	**1,556**	1,396
Long-term accounts payable and accrued charges	**184**	150
Deferred revenue	**120**	132
Future income taxes (Note 11)	**217**	246
Regulatory liabilities (Note 7)	**14**	11
	13,048	12,455
Shareholder's equity		
Common shares (Note 14)	**5,126**	5,126
Retained earnings	**1,664**	623
Accumulated other comprehensive income	**17**	–
	6,807	5,749
	24,839	22,750

Commitments and Contingencies (Notes 2, 8, 9, 10, 11, 13, 15, and 18)

See accompanying notes to the consolidated financial statements

On behalf of the Board of Directors:

Jake Epp.

Honourable Jake Epp
Chairman

M. George Lewis
Director

Consolidated Statements of Changes in Shareholder's Equity

Years Ended December 31 (millions of dollars)	**2007**	2006
Common shares (Note 14)	**5,126**	5,126
Retained earnings		
Balance at beginning of year	**623**	261
Transition adjustment on adoption of financial instruments accounting standards (Note 3)	**513**	–
Net income	**528**	490
Dividends	**–**	(128)
Balance at end of year	**1,664**	623
Accumulated other comprehensive income, net of income taxes		
Balance at beginning of year	**–**	
Transition adjustment on adoption of financial instruments accounting standards (Note 3)	**21**	
Other comprehensive income for the year	**(4)**	
Balance at end of year	**17**	
Total shareholder's equity at end of year	**6,807**	

Consolidated Statement of Comprehensive Income

Year Ended December 31, 2007 (millions of dollars)	
Net income	**528**
Other comprehensive loss, net of income tax	
Net gain on derivatives designated as cash flow hedges[1]	**11**
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(15)**
Other comprehensive loss for the year	**(4)**
Comprehensive income	**524**

[1] Net of income tax of $1 million for the year ended December 31, 2007

[2] Net of income tax benefit of $9 million for the year ended December 31, 2007

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements for the years ended December 31, 2007 and 2006

1 Description of Business

Ontario Power Generation Inc. (" " or the "Company") was incorporated on December 1, 1998 pursuant to the Business Corporations Act (Ontario). As part of the reorganization of Ontario Hydro, under the Electricity Act, 1998 and the related restructuring of the electricity industry in Ontario, Ontario Power Generation Inc. and its subsidiaries (collectively "OPG" or the "Company") purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro on April 1, 1999 and commenced operations on that date. Ontario Hydro has continued as Ontario Electricity Financial Corporation ("OEFC"), responsible for managing and retiring Ontario Hydro's outstanding debt and other obligations.

2 Basis of Presentation

These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of OPG and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

Certain of the 2006 comparative amounts have been reclassified from financial statements previously presented to conform to the 2007 financial statement presentation.

3 Summary of Significant Accounting Policies

Cash and Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments. These securities are valued at the lower of cost or market.

Interest earned on cash and cash equivalents and short-term investments of $5 million (2006 – $21 million) at an average effective rate of 4.4 per cent (2006 – 4.0 per cent) is offset against interest expense in the consolidated statements of income.

Sales of Accounts Receivable

Asset securitization involves selling assets such as accounts receivable to independent entities or trusts, which buy the receivables and then issue interests in them to investors. These transactions are accounted for as sales, given that control has been surrendered over these assets in return for net cash consideration. For each transfer, the excess of the carrying value of the receivables transferred over the estimated fair value of the proceeds received is reflected as a loss on the date of the transfer, and is included in net interest expense. The carrying value of the interests transferred is allocated to accounts receivable sold or interests retained according to their relative fair values on the day the transfer is made.

Fair value is determined based on the present value of future cash flows. Cash flows are projected using OPG's best estimates of key assumptions, such as discount rates, weighted average life of accounts receivable and credit loss ratios.

As part of the sales of accounts receivable, certain financial assets are retained and consist of interests in the receivables transferred. Any retained interests held in the receivables are accounted for at cost. The receivables are transferred on a fully serviced basis and do not create a servicing asset or liability.

Inventories

Fuel inventory is valued at weighted average cost.

Materials and supplies are valued at the lower of average cost and net realizable value. The determination of net realizable value of materials and supplies takes into account various factors including the remaining useful life of the related facilities in which the materials and supplies are expected to be used.

Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost. Interest costs incurred during construction are capitalized as part of the cost of the asset based on the interest rate on OPG's long-term debt. Expenditures for replacements of major components are capitalized.

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Repairs and maintenance are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis as noted below:

Nuclear generating stations and major components	15 to 49 years[1]
Fossil generating stations and major components	25 to 40 years[2]
Hydroelectric generating stations and major components	25 to 100 years
Administration and service facilities	10 to 50 years
Computers, and transport and work equipment assets – declining balance	9% to 40% per year
Major application software	5 years
Service equipment	5 to 10 years

---

[1] The end of station life for depreciation purposes for the Darlington, Pickering A, Pickering B, and Bruce B nuclear generating stations ranges between 2012 and 2021. Major components are depreciated over the lesser of the station life and the life of the components. The Bruce A nuclear generating station was fully depreciated in 2003. Bruce Power decided to refurbish the Bruce A generating station contributing to an increase in the asset retirement obligation at December 31, 2006 and an increase in the carrying value of the Bruce A station. For the year ended December 31, 2007, the depreciation of the Bruce A station was calculated based on the end-of-life date of 2030.

[2] Commencing July 1, 2006, the end of station life for depreciation purposes for the coal-fired generating stations was changed to 2012, due to the expected shutdown of these stations by the end of 2012.

[3] The end of station life for depreciation purposes disclosed above excludes the impact of life extensions commencing January 1, 2008, which are described under the heading, *Changes in Accounting Policies and Estimates.*

Impairment of Fixed Assets

OPG evaluates its property, plant and equipment for impairment whenever conditions indicate that estimated undiscounted future net cash flows may be less than the net carrying amount of assets. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available.

Rate Regulated Accounting

In December 2004, the Electricity Restructuring Act, 2004 (Ontario) received Royal Assent. A regulation made pursuant to that statute by the Province of Ontario (the "Province") in February 2005 provides that OPG receives regulated prices beginning April 1, 2005 for electricity generated from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates. This includes electricity generated from Sir Adam Beck 1, 2 and Pump generating stations, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B, and Darlington nuclear facilities. The regulation was amended in February 2007. The amendment clarified certain aspects of the regulation and directed OPG to establish a deferral account related to certain changes in its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management.

The amendment issued in February 2007 also clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility. The amendment requires these costs be within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or that the OEB is satisfied that these costs were prudently incurred.

In February 2008, a second amendment to the regulation was made by the Province. This amendment directs OPG to establish a deferral account to record, for the period up to the effective date of the OEB's first order, the costs incurred and firm financial commitments made on or after June 13, 2006, in the course of planning and preparation for the development of proposed new nuclear generation facilities. This amendment further directs OPG to establish a variance account to record, for the period on or after the effective date of the OEB's first order, the differences between actual non-capital costs incurred and firm financial commitments made, and the amounts included in the approved regulated price related to planning and preparation for the development of proposed new nuclear generation facilities. In addition, the amendment states that the OEB must ensure that OPG recovers these costs to the extent the OEB is satisfied that the costs were prudently incurred or commitments prudently made.

OPG's regulated prices were established by the Province based on a forecast of production volumes and total operating costs, and a return on rate base, which assumed an average five per cent rate of return on equity. Rate base is a regulatory construct that represents the average net level of investment in regulated fixed assets and an allowance for working capital. The initial prices took effect April 1, 2005, and are expected to remain in effect until at least March 31, 2008, at which time the Ontario Energy Board (the "OEB") will assume responsibility for establishing new regulated prices.

The OEB is a self-funding crown corporation. Its mandate and authority come from the *Ontario Energy Board Act, 1998*, the *Electricity Act, 1998*, and a number of other provincial statutes. The OEB is an independent, quasi-judicial tribunal that reports to the Legislature of the Province through the Minister of Energy. It regulates all market participants in the Province's natural gas and electricity industries and carries out its regulatory functions through public hearings and other more informal processes such as consultations.

Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the consolidated financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred expenses will be recovered in the future, then OPG may defer those expenses and report them as a regulatory asset. If current recovery is provided for expenses expected to be incurred in the future, then OPG reports a regulatory liability. Also, if the regulation provides for lesser or greater than planned revenue to be received or returned by OPG through future regulated prices, then OPG recognizes a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities is subject to certain estimates and assumptions, including assumptions made in the interpretation of the regulation. See Notes 7 and 11 to the audited consolidated financial statements for additional disclosure related to rate regulated accounting.

Investments in OPG Ventures

In accordance with Accounting Guideline 18, *Investment Companies* ("AcG-18"), investments owned by the Company's wholly owned subsidiary OPG Ventures Inc. ("OPGV") are recorded at fair value, and changes to the fair value of the investments are included in revenue in the period in which the change occurs. The fair values of these investments are estimated based on readily available market information or using estimation techniques based on historical performance.

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal or storage of nuclear used fuel are charged to fuel expense. The liability may also be adjusted due to any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss would be recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the related fixed assets. The capitalized cost is depreciated over the remaining useful life of the related fixed assets and is included in depreciation expense.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

Pursuant to the Ontario Nuclear Funds Agreement ("ONFA") between OPG and the Province of Ontario, OPG established a Used Fuel Segregated Fund ("Used Fuel Fund") and a Decommissioning Segregated Fund ("Decommissioning Fund") (together the "Nuclear Funds"). The Used Fuel Fund is intended to fund expenditures associated with the disposal of highly radioactive used nuclear fuel bundles, while the Decommissioning Fund was established to fund expenditures associated with nuclear fixed asset removal and the disposal of low and intermediate level nuclear waste materials. OPG maintains the Nuclear Funds in third party custodial accounts that are segregated from the rest of OPG's assets.

The Nuclear Funds are invested in fixed income and equity securities. Prior to 2007, OPG recorded the investments in the Nuclear Funds as long-term investments and accounted for the investments at their amortized cost value. Therefore, gains and losses were recognized only upon the sale of an underlying security. As such, there may have been unrealized gains and losses associated with the investments in the Nuclear Funds, which OPG had not recognized in its consolidated financial statements.

Effective January 1, 2007, OPG adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading. Accordingly, the Nuclear Funds and the corresponding payables to the Province are measured at fair value based on the bid prices of the underlying securities with gains and losses recognized in net income. More details on the impact of the new accounting standards are provided in the Accounting Changes section.

Revenue Recognition

All of OPG's electricity generation is sold into the real-time energy spot market administered by the Independent Electricity System Operator ("IESO"). Prior to April 1, 2005, revenue was recorded as electricity was generated and metered based on the spot market sales price, net of the Market Power Mitigation Agreement rebate and hedging activities. At each balance sheet date, OPG computed the average spot energy price that prevailed since the beginning of the current settlement period and recognized a Market Power Mitigation Agreement rebate if the average price exceeded 3.8¢/kilowatt hour ("kWh"), based on the amount of energy subject to the rebate.

Effective April 1, 2005, the generation from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates became rate regulated. As a result, energy revenue generated from the nuclear facilities is recognized based on a regulated price of 4.95¢/kWh. The regulated price received by OPG for the first 1,900 megawatt hours ("MWh") of production from the regulated hydroelectric facilities in any hour is 3.3¢/kWh. Any production from these regulated hydroelectric facilities above 1,900 MWh in any hour receives the Ontario electricity spot market price.

The production from OPG's remaining hydroelectric, fossil-fuelled and wind generating stations remains unregulated and continues to be sold at the Ontario electricity spot market price. However, 85 per cent of the generation output from these other generating assets, excluding the Lennox generating station, stations whose generation output is subject to a Hydroelectric Energy Supply Agreement ("HESA") with the Ontario Power Authority ("OPA") pursuant to a ministerial directive, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets are also excluded from the output covered by the revenue limit. In addition, until the Transition – Generation Corporation Designated Rate Options ("TRO") expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate. This revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these two revenue limits are returned to the IESO for the benefit of consumers.

OPG also sells into, and purchases from, interconnected markets of other provinces and the U.S. northeast and midwest. All contracts that are not designated as hedges are recorded in the consolidated balance sheets at market value with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income. Accordingly, power purchases of $120 million in 2007 and $163 million in 2006 were netted against revenue.

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power L.P. ("Bruce Power") related to the Bruce nuclear generating stations. This includes lease revenues and revenues for engineering analysis and design, technical and ancillary services. OPG also earns revenue from its joint venture share of the Brighton Beach Power Limited Partnership ("Brighton Beach") related to an energy conversion agreement between Brighton Beach and Coral Energy Canada Inc. ("Coral"). In addition, non-energy revenue includes isotope sales and real estate rentals. Revenues from these activities are recognized as services are provided or as products are delivered.

Derivatives

OPG is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in unregulated revenue over the term of the contract when the underlying hedged transactions occur. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in other revenue.

OPG also enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

OPG utilizes emission reduction credits ("ERCs") and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. The fair value of such derivative instrument is included in accumulated other comprehensive income ("AOCI") on a net of tax basis and changes to the fair value are recorded on the consolidated statement of comprehensive income. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in the current period's consolidated statement of income.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at year end exchange rates. Any resulting gain or loss is reflected in revenue.

Research and Development

Research and development costs are charged to operations in the year incurred. Research and development costs incurred to discharge long-term obligations such as the nuclear waste management liabilities, for which specific provisions have already been made, are charged to the related liability.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability benefits. OPG accrues its obligations under pension and other post employment benefit ("OPEB") plans. The obligations for pension and other post retirement benefit costs are determined using the projected benefit method pro-rated on service. The obligation for long-term disability benefits is determined using the projected benefit method on a terminal basis. The obligations are affected by salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by independent actuaries using management's best estimate assumptions. The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields.

Pension fund assets are valued using market-related values for purposes of determining actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six per cent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPEB plan amendments are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plan, since OPG will realize the economic benefit over that period. Due to the long-term nature of post-employment liabilities, the excess ofthe net cumulative unamortized gain or loss, over 10 per cent of the greater of the benefit obligation and the market-related value of the plan assets, is also amortized over the expected average remaining service life.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Taxes

Under the *Electricity Act, 1998,* OPG is responsible for making payments in lieu of corporate income and capital taxes to the OEFC. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by the Electricity Act, 1998 and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes of its unregulated operations. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period the change is substantively enacted. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is established.

Commencing April 1, 2005, with the introduction of rate regulation, OPG accounts for income taxes relating to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its business to the extent those future income taxes are expected to be recovered or refunded in future regulated prices charged to customers.

OPG makes payments in lieu of property tax on its nuclear and fossil-fuelled generating assets to the OEFC, and also pays property taxes to municipalities.

OPG pays charges on gross revenue derived from the annual generation of electricity from its hydroelectric generating assets. The gross revenue charge ("GRC") includes a fixed percentage charge applied to the annual hydroelectric generation derived from stations located on provincial Crown lands, in addition to graduated rate charges applicable to all hydroelectric stations. GRC costs are included in fuel expense.

Changes in Accounting Policies and Estimates

Depreciation of Long-Lived Assets

The accounting estimates related to the depreciation of long-lived assets require significant management judgment to assess the appropriate useful lives of OPG's long-lived assets, including consideration of various technological and other factors.

Effective January 1, 2006, following the completion of a review of the life limiting components of the Pickering B nuclear generating station, OPG revised and extended, for the purpose of calculating depreciation, the estimated remaining service life of the Pickering B nuclear generating station to 2014 from 2009. The extension reduced depreciation expense by $36 million in 2006 and in 2007.

The Province accepted the advice of the IESO in their June 2006 report that indicated a need for 2,500 to 3,000 MW of additional capacity to maintain system reliability. Therefore, further delays were necessary in the Province's plan to replace coal-fired generation by 2009. As a result of delays in the plan to replace coal-fired generation by 2009, effective July 1, 2006, OPG extended the life for all of the coal-fired generating stations, for purposes of calculating depreciation, to December 31, 2012. The extension reduced depreciation expense by $64 million in 2006, $126 million in 2007, and $46 million in 2008. From 2009 to 2012, the depreciation expense will increase by $59 million in each year. OPG will reassess the service life of the coal-fired generating stations upon release of the submitted Integrated Power System Plan, and as subsequently approved by the OEB. Any change to the estimated service life of the coal-fired generating stations, for purposes of calculating depreciation, could have a material impact on OPG's consolidated financial statements.

Effective January 1, 2008, the service life of the Darlington nuclear generating station, for the purposes of calculating depreciation, was extended by two years to 2019 after a review of the technical analysis for life limiting components. The life extension will reduce depreciation expense by $18 million annually.

The Company has extended the service life of Bruce B nuclear generating station to 2014 for depreciation purposes effective January 1, 2008 after reviewing future capacity plans in the OPA's Integrated Power System Plan, which was filed with the OEB in August 2007, and historical information regarding the service lives of major life limiting components of the station. As a result of the extension, depreciation expense will be reduced by $7 million annually. In addition, effective January 1, 2008, OPG extended the service life of Bruce A nuclear generating station to 2035 for depreciation purposes after the review of future capacity plans filed with the OPA and other publicly available information. The extension of the service life to the Bruce A nuclear generating station for depreciation purposes will decrease depreciation expense by $8 million annually.

Financial Instruments

On January 1, 2007, OPG adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, *Comprehensive Income*; Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; and Handbook Section 3865, *Hedges*. Comparative amounts for prior periods have not been restated.

Comprehensive Income

As a result of adopting these standards, a new category, accumulated other comprehensive income, was added to shareholder's equity in the consolidated balance sheets. Comprehensive income consists of net income and other comprehensive income. This category includes changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in other comprehensive income until the criteria for recognition in the consolidated statements of income are met.

Financial Instruments – Recognition and Measurement

Under the new standard, for accounting purposes, financial assets are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale, and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Financial assets available-for-sale are measured at fair value with unrealized gains and losses due to fluctuations in fair value recognized in accumulated other comprehensive income. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established timeframe, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

The new standard permits designation of any financial instrument as held-for-trading (the fair value option) upon initial recognition. This designation by OPG requires that the financial instrument be reliably measurable, and eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities.

Hedges

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting is to be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item.

Impact of Adoption

Upon adoption of the financial instruments accounting standards, the assets in the Nuclear Funds that were carried at amortized cost until the end of 2006 were classified as held-for-trading and reported at fair value. The transition adjustment related to the change in accounting for the Nuclear Funds was recognized in the opening balance of retained earnings at January 1, 2007. The transition adjustment for embedded derivatives within long-term contracts was also recognized in the opening balance of retained earnings at January 1, 2007. OPG elected January 1, 2004 as the transition date for embedded derivatives. Prior to January 1, 2007, OPG disclosed the fair value of securities in the Nuclear Funds based on the closing price of the securities. Starting January 1, 2007, OPG applied bid pricing to determine the fair value of the securities.

The fair value of the Nuclear Funds based on bid pricing is lower than that reported in the 2006 comparative period. The change in pricing methodology does not have any impact to the overall balance on the consolidated balance sheets since the reduction in fair value is offset by the corresponding change in the due to Province balance.

The fair values of hedging instruments designated as cash flow hedges were recognized in the opening accumulated other comprehensive income on a net of tax basis. The fair values of these hedges are disclosed in Note 13 to the audited consolidated financial statements.

The transition amounts that were recorded in the opening retained earnings or in the opening accumulated other comprehensive income balance on January 1, 2007 were as follows:

			Transition Amounts – January 1, 2007	
(millions of dollars)	**At Cost December 31, 2006**	At Fair Value January 1, 2007	Opening Retained Earnings	Opening Accumulated Other Comprehensive Income
Nuclear Funds balance	**7,694**	9,041	1,347	–
Due to Province	**(100)**	(928)	(828)	–
	7,594	8,113	519	–
Accounts receivable and other assets	**325**	372	–	47
Accounts payable and accrued charges	**(989)**	(1,005)	(6)	(10)
Net future income tax liability	**(249)**	(265)	–	(16)
Transition adjustments			513	21

Future Changes in Accounting Policies

Capital Disclosures and Financial Instruments

In December 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures* ("Section 1535"), Handbook Section 3862, *Financial Instruments – Disclosures* ("Section 3862"), and Handbook Section 3863, *Financial Instruments – Presentation* ("Section 3863"). These new standards are effective for the Company beginning January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Inventories

The CICA issued a new accounting standard, Section 3031, *Inventories*, in March 2007, which is based on International Accounting Standard ("IAS") 2. The new section replaced the existing Section 3030, *Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of OPG's critical spare parts currently reported as materials and supplies on OPG's consolidated balance sheets will be accounted for as property, plant and equipment. The new accounting standard and the consequential amendments are effective for OPG beginning January 1, 2008. OPG reclassified significant critical spare parts of $19 million, net of accumulated depreciation, to property, plant and equipment in 2008.

Accounting for Regulatory Operations

In December 2007, the CICA revised its guidance on accounting for rate regulated operations. The revision resulted in amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 ("AcG-19"), *Disclosures by Entities Subject to Rate Regulation*, as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG will be required to recognize future income taxes associated with its rate regulated operations in the same manner as it currently recognizes future income taxes for its unregulated operations. OPG will apply the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. OPG is currently evaluating the impact of implementing these changes on its consolidated financial statements.

4 Sale of Accounts Receivable

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables. In December 2005, the Company extended this agreement to August 2009.

OPG reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12, Transfer of Receivables. In accordance with this Guideline, the proceeds of each sale to the trust were deemed to be the cash received from the trust, net of the undivided co-ownership interest retained by the Company. For 2007, OPG has recognized pre-tax charges of $15 million (2006 – $13 million) on such sales at an average cost of funds of 5.1 per cent (2006 – 4.4 per cent). As at December 31, 2007, OPG had sold receivables of $300 million from its total portfolio of $479 million (2006 – $392 million).

The accounts receivable reported and securitized by the Company are as follows:

	Principal Amount of Receivables as at December 31		Average Balance of Receivables for Year Ended December 31	
(millions of dollars)	**2007**	2006	**2007**	2006
Total receivables portfolio[1]	**479**	392	**454**	445
Receivables sold	**300**	300	**300**	300
Receivables retained	**179**	92	**154**	145
Average cost of funds			**5.1%**	4.4%

[1] Amount represents receivables outstanding, including receivables that have been securitized, which the Company continues to service.

An immediate 10 per cent or 20 per cent adverse change in the discount rate would not have a material effect on the current fair value of the retained interest. There were no credit losses for the years ended December 31, 2007 and 2006.

Details of cash flows from securitizations for the years ended December 31, 2007 and 2006 are as follows:

(millions of dollars)	**2007**	2006
Collections reinvested in revolving sales[1]	**3,600**	3,600
Cash flows from retained interest	**1,759**	2,020

[1] Given the revolving nature of the securitization, the cash collections received on the receivables securitized are immediately reinvested in additional receivables resulting in no further cash proceeds to the Company over and above the initial cash amount of $300 million. The amounts reflect the total of 12 monthly amounts.

5 Depreciation and Amortization and Fixed Assets

Depreciation and amortization expense consists of the following:

(millions of dollars)	**2007**	2006
Depreciation and amortization	**587**	659
Amortization of deferred Pickering A return to service costs (Note 7)	**96**	25
Nuclear waste management costs	**12**	5
	695	689

Fixed assets consist of the following:

(millions of dollars)	**2007**	2006
Property, plant and equipment		
Nuclear generating stations	**6,466**	6,275
Regulated hydroelectric generating stations	**4,411**	4,384
Unregulated hydroelectric generating stations	**3,525**	3,481
Fossil-fuelled generating stations	**1,553**	1,465
Other fixed assets	**867**	854
Construction in progress	**950**	677
	17,772	17,136
Less: accumulated depreciation		
Generating stations	**4,636**	4,066
Other fixed assets	**359**	309
	4,995	4,375
	12,777	12,761

Interest capitalized to construction in progress at six per cent during the years ended December 31, 2007 and 2006 was $42 million and $21 million, respectively.

Impairment of Long-Lived Assets

The accounting estimates related to asset impairment require significant management judgment to identify factors such as short and long-term forecasts for future sales prices, the supply of electricity in Ontario, inflation, fuel prices, and station lives. The amount of the future cash flow that OPG will ultimately realize with respect to these assets could differ materially from the carrying values recorded in the consolidated financial statements.

Thunder Bay and Atikokan Generating Stations

OPG recognized an impairment loss on the Thunder Bay and Atikokan coal-fired generating stations in 2006 of $22 million, which represented the carrying amount or net book value of these stations. OPG tested the recoverability of the carrying amounts of the coal-fired stations as a result of changes in circumstance, which included a decrease in forecast Ontario spot market prices and the extension of the lives of the coal-fired stations. The fair value of the coal-fired generating stations, which was determined using a discounted cash flow method, was compared to the carrying value of the generating assets to determine the impairment loss. It was determined that the Thunder Bay and Atikokan coal-fired generating stations would not be able to recover their operating and capital expenditures and carrying amount, over their remaining service lives.

6 Investments in Asset-Backed Commercial Paper

In August 2007, a number of Canadian third-party Trusts, as issuers of asset-backed commercial paper ("ABCP"), experienced difficulty in accessing the liquidity required to repay maturing ABCP debt. OPG's original exposure to third-party ABCP notes was $103 million. Of that total, $45 million consisted of notes held with Skeena Capital Trust ("Skeena"). In December 2007, OPG received payment of approximately $44 million against these notes and recognized an impairment loss of $1 million. The settlement amount represented 98.65 per cent of the original investment including interest up to the maturity date.

Following the settlement of investments in Skeena, OPG's holdings of third-party ABCP was reduced to $58 million. On December 23, 2007, a restructuring plan was announced for the remaining third-party ABCP Trusts. Documentation of the restructuring plan for theses trusts is expected in March 2008. Approval for any restructuring is required by note holders representing not less than 66 and two-thirds of the value of the Trusts.

OPG performed a valuation analysis as at December 31, 2007 to assess the amount of any impairment, taking into account the limited information available. The assessment considered the likelihood of achieving a successful restructuring based on the current proposal announced on December 23, 2007. OPG used a probability weighted cash flow model to determine the fair value of its third-party ABCP holdings. Since the majority of OPG's remaining ABCP is made up of combined traditional and synthetic assets such as Collateralized Debt Obligations ("CDO's"), the recoverability was estimated to be 85 per cent. An insignificant amount of OPG's remaining third-party ABCP is made up of ineligible assets, where the underlying assets or the collateral provided is supported by United States ("U.S.") sub-prime assets. The recoverability of these ineligible assets was estimated to be 70 per cent. OPG also considered alternative methods to assess the fair value of the investments. As a result of the analysis, OPG recorded an impairment loss of $9 million against the remaining holdings of $58 million, in addition to the $1 million loss related to the Skeena investments. The impairment loss is included in other gains and losses.

OPG reviewed the classification of its third-party ABCP holdings and has determined that a long-term classification is appropriate, based on the restructuring information available. OPG will continue to monitor developments with respect to ABCP and will continue to assess its position.

OPG has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any material adverse impact on its operations as a result of this current third-party ABCP liquidity issue.

7 Regulatory Assets and Liabilities and Summary of Rate Regulated Accounting

The regulatory assets and liabilities as at December 31, 2007 and 2006 are as follows:

(millions of dollars)	**2007**	2006
Regulatory assets		
Pickering A return to service costs	**183**	249
Nuclear liabilities deferral account	**131**	–
Nuclear generation development costs	**28**	–
Hydroelectric production variance	**7**	–
Ancillary service revenue variance	**5**	–
Transmission outages and transmission restrictions variance	**2**	2
Total regulatory assets	**356**	251
Regulatory liabilities		
Hydroelectric production variance	**–**	4
Other	**14**	7
Total regulatory liabilities	**14**	11

The changes in the regulatory assets and liabilities for 2007 and 2006 are as follows:

(millions of dollars)	Pickering A Return to Service Costs	Nuclear Liabilities Deferral Account	Nuclear Generation Development Costs	Transmission Outages and Transmission Restrictions Variance	Hydro-electric Production Variance	Ancillary Services Revenue Variance	Other
Regulatory assets (liabilities), January 1, 2006	261	–	–	–	(4)	5	(8)
Change during the year	13	–	–	2	–	(5)	1
Amortization during the year	(25)	–	–	–	–	–	–
Regulatory assets (liabilities), December 31, 2006	249	–	–	2	(4)	–	(7)
Change during the period	30	131	28	–	11	5	(7)
Amortization during the period	96	–	–	–	–	–	–
Regulatory assets (liabilities), December 31, 2007	**183**	**131**	**28**	**2**	**7**	**5**	**(14)**

Pickering A Return to Service Costs

Effective January 1, 2005, in accordance with a regulation made under the *Electricity Restructuring Act, 2004* (Ontario), OPG was required to establish a deferral account in connection with non-capital costs incurred on or after January 1, 2005 that were associated with the planned return to service of all units at the Pickering A nuclear generating station. The regulation, as amended in February 2007, also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account. As at December 31, 2007, the balance in the deferral account was $183 million, consisting of non-capital costs of $232 million relating to Unit 1 and $19 million relating to Units 2 and 3, $20 million of general return to service non-capital costs and interest of $37 million, net of the accumulated amortization of $125 million. As at December 31, 2006, the balance in the deferral account was $249 million, consisting of non-capital costs of $232 million relating to Unit 1 and $19 million relating to Units 2 and 3, $20 million of general return to service non-capital costs and interest of $7 million, net of the accumulated amortization of $29 million.

There were no operations, maintenance and administration ("OM&A") costs charged to the deferral account during 2007. During 2006, OM&A expenses of $13 million were charged to the deferral account. Had OPG not charged these costs to the deferral account, OM&A expenses would have increased by $13 million for 2006.

During 2007, OPG deferred applied interest related to the Pickering A return to service deferral account of $30 million. Had OPG not applied interest to this account, the net interest expense would have increased by $30 million for 2007 (2006 – nil).

The costs accumulated in the deferral account are charged to operations in accordance with the terms of the regulation. Under the regulation, the OEB is directed to ensure that OPG recovers any balance in the deferral account on a straight-line basis over a period not to exceed 15 years. Had OPG not amortized the costs in the deferral account, depreciation and amortization expense for 2007 would have been reduced by $96 million (2006 – $25 million).

Nuclear Liabilities Deferral Account

In February 2007, the Province amended a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario) to direct OPG to establish a deferral account in connection with certain changes to its liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management. The deferral account represents the revenue requirement impact associated with the changes in the nuclear liabilities arising from an approved reference plan, approved after April 1, 2005, as reflected in OPG's audited consolidated financial statements. Revenue requirement is a regulatory construct, which represents all allowed costs and a return on rate base at a rate of return that the regulator determines to be appropriate. The regulation also requires OPG to record interest at an annual rate of six per cent on the balance in the deferral account.

On December 31, 2006, OPG recorded an increase in its nuclear liabilities of $1,386 million arising from an update to the approved reference plan in accordance with the terms of the Ontario Nuclear Funds Agreement ("2006 Approved Reference Plan"). Commencing January 1, 2007 and up to the effective date of OEB's first order establishing regulated prices, which is expected to be after March 31, 2008, OPG records a regulatory asset associated with the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan.

The OEB is directed by the regulation to ensure that OPG recovers the balance recorded in the deferral account on a straight-line basis over a period not to exceed three years, to the extent that the OEB is satisfied that the revenue requirement impacts are accurately recorded.

As at December 31, 2007, the following items have been recorded as components of the regulatory asset relating to the increase in the nuclear liabilities arising from the 2006 Approved Reference Plan:

(millions of dollars)	2007
Return on rate base	**75**
Depreciation expense	**54**
Fuel expense	**(5)**
Capital tax	**3**
Interest expense	**4**
	131

The return on rate base component of $75 million was recorded as a reduction to the accretion expense on fixed asset removal and nuclear waste management expense for the year ended December 31, 2007.

For the year ended December 31, 2007, had OPG not established the deferral account as required by the regulation, accretion expense would have increased by $75 million, depreciation expense would have increased by $54 million, property and capital taxes expense would have been higher by $3 million, net interest expense would have increased by $4 million, and fuel expense would have been lower by $5 million.

The regulation also provides for the recovery of an amount relating to additional income taxes that OPG will be subject to as a result of recovering the regulatory asset through future regulated prices charged to customers. Since OPG has not yet incurred a related income tax expense, no amounts related to income taxes have been recorded as part of the regulatory asset.

Nuclear Generation Development Costs

The amendment to the regulation pursuant to the Electricity Restructuring Act, 2004 (Ontario) made in February 2007 clarified that the OEB must ensure that OPG recovers, through future regulated prices, all capital and non-capital costs incurred in order to increase the output of, refurbish or add operating capacity to a regulated facility, if these costs are either within budgets approved by OPG's Board of Directors prior to the OEB's first order establishing regulated prices or if the OEB is satisfied that these costs were prudently incurred. A further amendment in February 2008, clarified that the OEB must ensure that OPG recovers the costs incurred and firm financial commitments made in the course of planning and preparing for the development of proposed new nuclear facilities. As a result of these amendments, OPG has recorded a regulatory asset of $28 million for the year ended December 31, 2007, which represents non-capital costs incurred for its nuclear generation development initiatives. Non-capital costs are recorded as a regulatory asset to the extent that they were incurred after April 1, 2005 and were not included in the forecast information provided to the Province for the purposes of establishing regulated prices.

Had OPG not recorded the above costs as a regulatory asset, OM&A expenses would have increased by $27 million and net interest expense would have increased by $1 million for the year ended December 31, 2007.

Variance Accounts and Other Regulatory Balances

Effective April 1, 2005, in accordance with a regulation made under the Electricity Restructuring Act, 2004 (Ontario), OPG was directed to establish variance accounts for capital and non-capital costs incurred and revenues earned or foregone on or after April 1, 2005 due to deviations from the forecast information provided to the Province for the purposes of establishing regulated prices. Variance accounts have been established for differences in hydroelectric electricity production due to differences between forecast and actual water conditions, unforeseen changes to nuclear regulatory requirements or unforeseen technological changes which directly affect the nuclear facilities, changes to revenues for ancillary services from the regulated facilities, acts of God (including severe weather events), and transmission outages and transmission restrictions.

OPG recorded an increase in revenue during the year ended December 31, 2007 of $5 million reflecting ancillary services revenue that was unfavourable compared to the forecast provided to the Province for the purposes of establishing regulated prices. In addition, OPG recorded an increase in revenue of $11 million in 2007 as a result of actual water conditions that were unfavourable to those forecast.

OPG recorded a decrease in revenue during the year ended December 31, 2006 of $5 million reflecting ancillary services revenue that was favourable compared to the forecast provided to the Province for the purposes of establishing regulated prices.

The OEB is directed by the regulation to ensure recovery of amounts recorded in the variance accounts to the extent that the OEB is satisfied that revenues recorded in the accounts were earned or foregone, that costs recorded in the accounts were prudently incurred, and that both revenues and costs are accurately recorded. Any balances approved by the OEB will be amortized over a period not to exceed three years. The amortization will commence when OPG starts to recover or return the balances through new prices that will be set by the OEB. Any balances in the accounts disallowed by the OEB will be reflected in the results of operations in the period that the OEB decision occurs.

The other regulatory liability consists of a portion of non-regulated revenue earned by OPG's regulated assets and interest on the account balance, which OPG expects to apply as a reduction to future regulated prices to be established by the OEB. OPG recorded an additional regulatory liability of $7 million in 2007 (2006 – an asset of $1 million), including $1 million of interest expense (2006 – nil).

Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, revenue for 2007 would have been lower by $12 million (2006 – higher by $2 million). Had OPG not accounted for the variance accounts and other regulatory balances as regulatory assets and liabilities, net interest expense for 2007 would have decreased by $1 million (2006 – nil).

Summary of Rate Regulated Accounting

The following tables summarize the impact of applying rate regulated accounting for selected income statement information:

Years Ended December 31

	2007			2006		
(millions of dollars)	**As Stated**	**Impact of Rate Regulated Accounting**	**Financial Statements without Rate Regulated Accounting**	As Stated	Impact of Rate Regulated Accounting	Financial Statements without Rate Regulated Accounting
Revenue	**5,660**	**9**	**5,669**	5,564	30	5,594
Fuel expense	**1,270**	**(5)**	**1,265**	1,098	–	1,098
Operations, maintenance and administration	**2,974**	**27**	**3,001**	2,752	13	2,765
Depreciation and amortization	**695**	**(42)**	**653**	689	(25)	664
Accretion on fixed asset removal and nuclear waste management liabilities	**507**	**75**	**582**	499	–	499
Property and capital taxes	**85**	**3**	**88**	106	–	106
Net interest expense	**143**	**33**	**176**	193	–	193

Accounting for Certain Leases

OPG accounts for certain lease revenues relating to the regulated business using the cash basis of accounting. Under the cash basis of accounting, OPG recognizes lease income as stipulated in the lease agreement to the extent that the lease payments are expected to be included in future regulated prices charged to customers. If OPG did not apply the cash basis of accounting for leases, the revenue would have increased by $21 million (2006 – $21 million). As at December 31, 2007, had OPG accounted for the leases related to the regulated business using a straight-line basis, OPG would have reported a deferred lease receivable of $57 million (2006 – $36 million).

8 Short-Term Credit Facilities

OPG's $1 billion revolving committed bank credit facility is divided into two tranches – a $500 million 364-day term tranche maturing May 21, 2008, and a $500 million five-year term tranche maturing May 22, 2012. The longer term tranche was extended from a three-year term to a five-year term, upon renewal of the bank credit facility in May 2007. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at December 31, 2007, there was no commercial paper outstanding (2006 – $15 million). OPG had no other outstanding borrowing under its bank credit facility as at December 31, 2007.

OPG also maintains $25 million (2006 – $26 million) in short-term uncommitted overdraft facilities as well as $238 million (2006 – $240 million) of short-term uncommitted credit facilities, which support the issuance of Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other purposes. At December 31, 2007, there was a total of $205 million (2006 – $185 million) of Letters of Credit issued, which included $175 million (2006 – $159 million) relating to the supplementary pension plans and $16 million (2006 – $16 million) relating to the construction of the Portlands Energy Centre.

9 Long-Term Debt

Long-term debt consists of the following:

(millions of dollars)	**2007**	2006
Notes payable to the OEFC	**3,665**	3,165
Share of non-recourse limited partnership debt	**188**	194
	3,853	3,359
Less: due within one year		
Notes payable to the OEFC	**400**	400
Share of limited partnership debt	**7**	6
	407	406
Long-term debt	**3,446**	2,953

Holders of the senior debt are entitled to receive, in full, amounts owing in respect of the senior debt before holders of the subordinated debt are entitled to receive any payments. The OEFC currently holds all of OPG's outstanding senior and subordinated notes.

The maturity dates as at December 31, 2007 for notes payable to the OEFC are as follows:

(millions of dollars)	Principal Outstanding			
Year of Maturity	Interest Rate (%)	Senior Notes	Subordinated Notes	Total
2008	5.90%	400	–	400
2009	6.01%	350	–	350
2010	6.00%	595	375	970
2011	6.65%	–	375	375
2012	5.72%	400	–	400
2016	4.91%	270	–	270
2017	5.35%	900	–	900
		2,915	750	3,665

In September 2005, OPG reached an agreement with the OEFC to provide debt financing for the Niagara Tunnel project. The funding, which is up to $1 billion over the duration of the project, will be in the form of 10-year notes, which will be issued quarterly to meet the project's obligations. Interest will be fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2007, OPG issued $240 million against this facility, which included new borrowing of $80 million under the facility in 2007. In January 2008, $40 million of new borrowing was issued under the facility.

In December 2006, OPG reached an agreement with the OEFC to provide debt financing for the Lac Seul Hydroelectric Generating Station and the Portlands Energy Centre projects. There will be up to $50 million available for the Lac Seul project and up to $400 million available for the Portlands Energy Centre project under each credit facility. The credit facilities will be drawn as needed to fund the respective projects over the construction period. The funding will be in the form of 10-year notes with interest rates fixed for each note issued at the time of advance at a rate equal to the prevailing Benchmark Government of Canada 10-Year Bond, plus a credit spread determined by the OEFC based on a survey of market rates. As at December 31, 2007, OPG issued $20 million against the Lac Seul project credit facility and $210 million against the Portlands Energy Centre credit facility, which included new borrowing of $120 million under the Portlands Energy Centre facility in 2007. In January 2008, $35 million of new borrowing was issued under the Portlands Energy Centre facility.

In 2007, OPG reached an agreement with the OEFC for a $500 million general corporate facility that is available for the period June 1, 2007 to March 31, 2008, and for a $950 million credit agreement to refinance senior notes as they mature over the period September 22, 2007 to September 22, 2009. In 2007, OPG borrowed $500 million under its general corporate facility and refinanced $200 million senior notes under the $950 million credit facility. These borrowings will mature in 2017.

The non-recourse limited partnership debt is secured by a first charge on the assets of one of the joint venture limited partnerships, an assignment of the joint venture's bank accounts, and an assignment of the joint venture's project agreements. OPG's share of the total assets was $284 million as at December 31, 2007. The minimum principal repayments of the non-recourse limited partnership debt for the next five calendar years range from $7 million to $9 million annually. OPG's share of the non-recourse limited partnership debt included a note payable of $131 million at an interest rate of 6.9 per cent, with an effective interest rate of 7.0 per cent. This note payable is repayable in quarterly payments commencing March 31, 2006 to March 31, 2024. The remaining non-recourse limited partnership debt is at various floating rates. The interest rates of the floating rate debt are referenced to various interest rate indices, such as the bankers' acceptance rate and the London Interbank Offered Rate, plus a margin. The joint venture has entered into floating to fixed interest rate hedges to manage the risks arising from fluctuation in interest rates. These hedges were described under note 13 of the audited consolidated financial statements.

Interest paid in 2007 was $224 million (2006 – $247 million), of which $203 million relates to interest paid on long-term debt (2006 – $230 million).

10 Fixed Asset Removal and Nuclear Waste Management

The liabilities for fixed asset removal and nuclear waste management on a present value basis consists of the following:

(millions of dollars)	**2007**	2006
Liability for nuclear used fuel management	**5,938**	5,669
Liability for nuclear decommissioning and low and intermediate level waste management	**4,843**	4,659
Liability for non-nuclear fixed asset removal	**176**	192
Fixed asset removal and nuclear waste management liabilities	**10,957**	10,520

The changes in the fixed asset removal and nuclear waste management liabilities for the years ended December 31, 2007 and 2006 are as follows:

(millions of dollars)	**2007**	2006
Liabilities, beginning of year	**10,520**	8,759
Increase in liabilities due to accretion	**582**	499
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**76**	38
Liabilities settled by expenditures on waste management	**(200)**	(164)
(Increase) decrease in the liability for non-nuclear fixed asset removal	**(21)**	2
Increase in the liability for nuclear used fuel management and the liability for nuclear decommissioning and low and intermediate level waste management to reflect the change in cost estimates	**-**	1,386
Liabilities, end of year	**10,957**	10,520

OPG's fixed asset removal and nuclear waste management liabilities are comprised of expected costs to be incurred up to and beyond termination of operations and the closure of nuclear and fossil-fuelled generating plant facilities. Costs will be incurred for activities such as dismantling, demolition and disposal of facilities and equipment, remediation and restoration of sites and the ongoing and long-term management of nuclear used fuel and low and intermediate level waste material. Nuclear station decommissioning consists of original placement of stations into a safe store condition followed by a nominal 30-year store period prior to station dismantling.

The following costs are recognized as a liability:

- The present value of the costs of dismantling the nuclear and fossil-fuelled production facilities at the end of their useful lives;
- The present value of the fixed cost portion of any nuclear waste management programs that are required based on the total volume of waste expected to be generated over the assumed life of the stations; and
- The present value of the variable cost portion of any nuclear waste management program taking into account actual waste volumes generated to date.

The determination of the accrual for fixed asset removal and nuclear waste management costs requires significant assumptions, since these programs run for many years. As at December 31, 2006, OPG updated the estimates for the nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management liabilities. The resulting updated Reference Plan, the 2006 Approved Reference Plan, was approved by the Province in accordance with the terms of the ONFA. The increase in cost estimates reflected in the 2006 Approved Reference Plan was mainly due to additional used fuel and waste quantities resulting from station life extensions, recent experience in decommissioning reactors, and changes in economic indices. The increase is partially offset by the impact of later end of life dates for some stations such as the Bruce A nuclear generating station and Units 1 and 4 at the Pickering nuclear generating station, which results in a later decommissioning dates and a reduced present value of decommissioning costs.

As a result of the approval of the 2006 Approved Reference Plan, OPG will recognize additional expenses including accretion on the fixed asset removal and nuclear waste management liabilities and depreciation of the carrying value of the related fixed assets. The impact of these additional expenses will be reduced by the recognition of a regulatory asset to be recovered through future prices charged to customers, as prescribed by the amended regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). This is discussed in Note 7 to the consolidated financial statements.

For the purposes of calculating OPG's fixed asset removal and nuclear management liabilities, nuclear and fossil-fuelled plant closures are projected to occur over the next five to 29 years. End of life dates may change as decisions on life extensions are made. The 2006 Approved Reference Plan includes cash flow estimates for decommissioning nuclear stations for approximately 40 years after station shutdown and to 2065 for placement of used fuel into the long-term disposal repository followed by extended monitoring. The undiscounted amount of estimated future cash flows associated with the liabilities is approximately $24 billion in December 31, 2007 dollars. The discount rate used to calculate the present value of the liabilities was 5.75 per cent for liabilities established prior to December 31, 2006. The increase in cost estimates related to the 2006 Approved Reference Plan and subsequent increases to the value of the undiscounted estimated cash flows for OPG's liability for nuclear waste management and decommissioning are discounted at 4.6 per cent. The cost escalation rates ranged from 1.8 per cent to 3.6 per cent. Under the terms of the lease agreement with Bruce Power, OPG continues to be responsible for the nuclear fixed asset removal and nuclear waste management liabilities associated with the Bruce nuclear generating stations.

The significant assumptions underlying operational and technical factors used in the calculation of the accrued liabilities are subject to periodic review. Changes to these assumptions, including changes to assumptions on the timing of the programs, financial indicators or the technology employed may result in significant changes to the value of the accrued liabilities. With programs of this duration and the evolving technology to handle the nuclear waste, there is a significant degree of uncertainty surrounding the measurement accuracy of the costs for these programs, which may increase or decrease over time.

Liability for Nuclear Used Fuel Management Costs

The liability for nuclear used fuel management represents the cost of managing the highly radioactive used nuclear fuel bundles. The federal Nuclear Fuel Waste Act ("NFWA") released in 2002 required that Canada's nuclear fuel waste owners form a Nuclear Waste Management Organization ("NWMO") and that each waste owner establish a trust fund for used fuel management costs. The NWMO studied alternatives for used fuel management and submitted an options study to the federal government in November 2005. The submission included a proposal titled Adaptive Phased Management for used fuel with an end-point being a deep geologic repository. In June 2007, the Government of Canada announced its decision to accept the NWMO proposal. To estimate its liability for nuclear used fuel management costs, OPG has adopted a conservative approach consistent with the approved Adaptive Phased Management concept approved by the Government of Canada, which assumes a deep geologic repository in-service date in 2035.

Liability for Nuclear Decommissioning and Low and Intermediate Level Waste Management Costs

The liability for nuclear decommissioning and low and intermediate level waste management represents the estimated costs of decommissioning nuclear generating stations after the end of their service lives, as well as the cost of managing low and intermediate level radioactive wastes generated by the nuclear stations. The significant assumptions used in estimating future nuclear fixed asset removal costs include decommissioning of nuclear generating stations on a deferred dismantlement basis where the reactors will remain in a safe storage state for a 30-year period prior to a 10-year dismantlement period.

The life cycle costs of low and intermediate level waste management include the costs of processing and storage of such radioactive wastes during and following the operation of the nuclear stations, as well as the costs of ultimate long-term management of these wastes. The current assumptions used to establish the accrued low and intermediate level waste management costs include a disposal facility for low and intermediate level waste with a targeted in-service date of year end 2017. Agreement has been reached with local municipalities for OPG to develop a deep geologic repository for the long-term management of low and intermediate level waste adjacent to the Western Waste Management Facility. OPG has initiated a federal environmental assessment process in respect of this proposed facility.

Liability for Non-Nuclear Fixed Asset Removal Costs

The liability for non-nuclear fixed asset removal is based on third-party cost estimates after an in-depth review of active plant sites and an assessment of required clean-up and restoration activities. This liability represents the estimated costs of decommissioning fossil-fuelled generating stations at the end of their service lives. The estimated retirement date of these stations is between 2012 and 2034.

In addition to the $107 million liability for active sites, OPG also has an asset retirement obligation liability of $69 million for decommissioning and restoration costs associated with plant sites that have been divested or are no longer in use.

OPG has no legal obligation associated with the decommissioning of its hydroelectric generating facilities. Also, the costs cannot be reasonably estimated because of the long service life of these assets. With either maintenance efforts or rebuilding, the water control structures are assumed to be used for the foreseeable future. Accordingly, OPG has not recognized a liability for the decommissioning of its hydroelectric generating facilities.

Ontario Nuclear Funds Agreement

OPG sets aside funds to be used specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities. In July 2003, OPG and the Province completed arrangements, pursuant to the ONFA. To comply with the ONFA, OPG established the Nuclear Funds. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The assets of the Nuclear Funds are maintained in third party custodian accounts that are segregated from the rest of OPG's assets.

The Decommissioning Fund was established to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level nuclear waste management and a portion of used fuel storage costs after station life. As at December 31, 2007, the Decommissioning Fund was in an overfunded position. OPG bears the risk and liability for cost estimate increases and fund earnings in the Decommissioning Fund.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in the ONFA, which limit OPG's total financial exposure at approximately $9.6 billion in December 31, 2007 dollars based on used fuel bundle projections of 2.23 million bundles consistent with the station lives included within the initial financial reference plan. The graduated liability thresholds do not apply to additional used fuel bundles beyond 2.23 million as projected in the 2006 Approved Reference Plan.

OPG makes quarterly payments to the Used Fuel Fund over the life of its nuclear generating stations, as specified in the ONFA. Required funding for 2007 under the ONFA was $454 million, including a contribution to The Ontario NFWA Trust (the "Trust") of $100 million. In 2007, OPG also made a one-time contribution of approximately $334 million to the Used Fuel Fund to satisfy the extraordinary payment specified within the ONFA and related to the Bruce Lease transaction with Bruce Power as discussed in Note 18 to the audited consolidated financial statements. This payment constitutes a Triggering Event under the ONFA which results in the need to further update the Amended Payment Schedule approved by the Province earlier in 2007 as part of the initial update to the 2006 Approved Reference Plan. The update to the payment schedule is currently in progress.

The NFWA was proclaimed into force in November 2002. In accordance with the NFWA, the Nuclear Waste Management Organization was formed. The NWMO prepared and reviewed alternatives, and provided recommendations to the federal government for long-term management of nuclear fuel waste in November 2005. The federal government selected the recommended option titled Adaptive Phased Management in June 2007. As required under the NFWA, OPG established the Trustin November 2002 and made an initial deposit of $500 million into the Trust. The NFWA also required OPG to make annual contributions of $100 million to the Trust. These contributions are to be deposited into the Trust no later than the November anniversary of the NFWA. The deposit amounts will be adjusted when the Mininster of Natural Resources approves the funding formula to be proposed by the NWMO in the first quarter of 2008. Given that the Trust forms part of the Used Fuel Fund, contributions to the Trust, as required by the NFWA, are applied towards the ONFA payment obligations.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of the ONFA, the Province provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, on behalf of OPG. The Nuclear Safety and Control Act requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The current value of this guarantee is for $760 million for years 2008 to 2010. Current plans indicate the Provincial Guarantee will not be required beyond 2010. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, was in satisfaction of OPG's nuclear licensing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province. In 2007, OPG paid the annual guarantee fee of $8 million (2006 – $8 million). These fees are associated with the Provincial Guarantee of $1,510 million, which was required at that time.

Effective January 1, 2007, OPG adopted the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. As a result of the adoption of this new section, the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's consolidated financial statements.

Decommissioning Fund

Upon termination of the ONFA, the Province has a right to any excess funding in the Decommissioning Fund, which is the excess of the fair market value of the Decommissioning Fund over the estimated completion costs as per the most recently approved ONFA Reference Plan. When the Decommissioning Fund is overfunded, OPG limits the earnings it recognizes in its consolidated financial statements, through a charge to the Decommissioning Fund with a corresponding payable to the Province, such that the balance of the Decommissioning Fund would equal the cost estimate of the liability based on the most recently approved ONFA reference plan. The payable to the Province could be reduced in subsequent periods in the event that the Decommissioning Fund earns less than its target rate of return or in the event that a new ONFA reference plan is approved with a higher estimated decommissioning liability.

At December 31, 2006, based on the estimate of costs to complete under the 2006 Approved Reference Plan, the Decommissioning Fund was overfunded on a fair value basis, and underfunded on an amortized cost basis. As a result of the adoption of the financial instruments accounting standards on January 1, 2007, OPG adjusted the investments and the related payables in the Decommissioning Fund to fair value, and recorded a transition adjustment of $519 million to increase opening retained earnings. Subsequently, the investments and the related payables in the Decommissioning Fund are measured at fair value and any changes to the fair values are recognized in income.

Since the Decommissioning Fund was underfunded on an amortized cost basis, no excess adjustment was reported in the Decommissioning Fund as at December 31, 2006. If the investments in the Decommissioning Fund were accounted for at fair value in the consolidated financial statements as at December 31, 2006, and the Decommissioning Fund was terminated under the ONFA, there would have been an amount due to the Province of $294 million.

After the adjustment to reflect the investments at fair value, on January 1, 2007 the value of the investments in the Decommissioning Fund exceeded the estimated completion costs under the 2006 Approved Reference Plan, and accordingly, the Decommissioning Fund balance was reduced by the amount of the excess funding through the recording of a payable to the Province. The Province's right to any excess funding in the Decommissioning Fund upon termination of the ONFA results in OPG capping its earnings at 5.15 per cent, which is the rate of growth in the liability for the estimated completion cost, as long as the Decommissioning Fund is in an overfunded status. If the Decommissioning Fund were underfunded, the earnings for the Decommissioning Fund would reflect actual fund returns based on the market value of the assets.

At December 31, 2007, the Decommissioning Fund's asset value on a fair value basis was $5,075 million, which continued to exceed the value of the liability as per the 2006 Approved Reference Plan. As a result of the overfunded status, OPG reported a payable to the Province of $3 million reflecting an amount due to the Province if the Decommissioning Fund were terminated under ONFA. Under the ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the most recently approved ONFA reference plan, are at least 120 per cent funded, OPG may direct up to 50 per cent of the surplus over 120 per cent to be treated as a contribution to the Used Fuel Fund, and the OEFC would be entitled to a distribution of an equal amount.

The assets in the Decommissioning Fund are invested primarily in publicly traded fixed income and equity investments. As a result, the value of these investments is subject to volatility in the capital markets. The volatility of the returns on these investments has increased over the past few months, which has resulted in a negative impact on the fair value and the funding status of the Decommissioning Fund. During the period January 1, 2008, to February 26, 2008, the fair value decreased by approximately two per cent, which resulted in a loss of approximately $100 million. The Decommissioning Fund has been designed to meet long-term liability requirements, and, therefore, short-term market variations are inevitable.

Used Fuel Fund

Under the ONFA, the Province guarantees OPG's annual return in the Used Fuel Fund at 3.25 per cent plus the change in the Ontario Consumer Price Index ("committed return") for funding related to the first 2.23 million used fuel bundles. OPG recognizes the committed return on the Used Fuel Fund and includes it in the earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual market return, based on the fair value of the Used Fuel Fund's assets, which includes realized and unrealized returns, is recorded as due to or due from the Province.

Up until December 31, 2006, OPG accounted for the investments in the Used Fuel Fund on an amortized cost basis, with the amount due to or due from the Province being recorded in the consolidated financial statements as the difference between the committed return and the actual return based on realized returns. At December 31, 2006, the Used Fuel Fund included an amount due to the Province of $100 million. The Used Fuel Fund's asset value, after taking into account the committed return and the amount due to the Province, was $3,238 million at December 31, 2006.

In addition, under the ONFA, the Province is entitled to any surplus in the Used Fuel Fund, subject to a threshold funded ratio of 110 per cent compared to the value of the associated liabilities.

Commencing January 1, 2007, the value of the investments held in the Used Fuel Fund is measured at fair value. Accordingly, the Used Fuel Fund's balance increased to $3,876 million to reflect the fair value measurement. The Province guarantees OPG's annual return in the Used Fuel Fund related to the initial 2.23 million used fuel bundles at the committed return, such that any difference between the committed return and the actual return based on fair value would be offset by the change in the related payable or receivable to the Province in the Used Fuel Fund. As a result, OPG did not record a transition adjustment to opening retained earnings for the Used Fuel Fund.

As at December 31, 2007, the Used Fuel Fund asset value on a fair value basis was $4,702 million. The asset value was offset by a payable to the Province of $511 million related to the committed return adjustment.

The nuclear fixed asset removal and nuclear waste management funds as at December 31, 2007 and 2006, consist of the following:

	Fair Value		Amortized Cost
(millions of dollars)	**2007**	2006	2006
Decommissioning Fund	**5,075**	5,169	4,356
Due to Province – Decommissioning Fund	**(3)**	(294)	–
	5,072	4,875	4,356
Used Fuel Fund[1]	**4,702**	3,879	3,338
Due to Province – Used Fuel Fund	**(511)**	(641)	(100)
	4,191	3,238	3,238
	9,263	8,113	7,594

[1] The Ontario NFWA Trust represented $1,244 million as at December 31, 2007 of the Used Fuel Fund on a fair value basis. The Ontario NFWA Trust represented $1,102 million as at December 31, 2006 of the Used Fuel Fund on an amortized cost and fair value basis.

The amortized cost and fair value of the securities invested in the Nuclear Funds, which include the Used Fuel Fund and Decommissioning Fund, as at December 31, 2007 and 2006 are as follows:

	Fair Value		Amortized Cost
(millions of dollars)	**2007**	2006	2006
Cash and cash equivalents and short-term investments	**833**	553	556
Marketable equity securities	**5,391**	5,608	4,250
Bonds and debentures	**3,559**	2,305	2,306
Receivable from the OEFC	**–**	588	588
Administrative expense payable	**(6)**	(6)	(6)
	9,777	9,048	7,694
Due to Province – Decommissioning Fund	**(3)**	(294)	–
Due to Province – Used Fuel Fund	**(511)**	(641)	(100)
Total	**9,263**	8,113	7,594

The bonds and debentures held in the Used Fuel Fund and the Decommissioning Fund as at December 31, 2007 and 2006 mature according to the following schedule:

	Fair Value	
(millions of dollars)	**2007**	2006
Less than 1 year	**–**	–
1 – 5 years	**1,631**	1,167
5 – 10 years	**879**	467
More than 10 years	**1,049**	671
Total maturities of debt securities	**3,559**	2,305
Average yield	**4.9%**	4.5%

The receivable of $588 million in 2006 from the OEFC was repaid in 2007. The effective rate of interest on the OEFC receivable was 3.9 per cent in 2006.

The change in the Nuclear Funds for the years ended December 31, 2007 and 2006 are as follows:

	Amortized Cost	
(millions of dollars)	**2007**	2006
Decommissioning Fund at amortized cost, beginning of year	**4,356**	4,099
Transition adjustment to fund on adoption of financial instruments accounting standards	**519**	–
Increase in fund due to return on investments	**5**	256
Decrease in fund due to reimbursement of expenditures	**(99)**	(6)
Decrease in Due to Province	**291**	7
Decommissioning Fund, end of year	**5,072**	4,356
Used Fuel Fund, beginning of year	**3,238**	2,689
Increase in fund due to contributions made	**788**	454
Increase in fund due to return on investments	**55**	204
Decrease in fund due to reimbursement of expenditures	**(20)**	(13)
Decrease (increase) in Due to Province	**130**	(96)
Used Fuel Fund, end of year	**4,191**	3,238

11 Income Taxes

Commencing April 1, 2005, OPG accounts for income taxes related to the rate regulated segments of its business using the taxes payable method. Under the taxes payable method, OPG does not recognize future income taxes related to the rate regulated segments of its business to the extent that the future income taxes are expected to be recovered or refunded through future regulated prices charged to customers.

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**2007**	2006
Income before income taxes	**477**	576
Combined Canadian federal and provincial statutory income tax rates, including surtax	**36.1%**	36.1%
Statutory income tax rates applied to accounting income	**172**	208
Decrease in income taxes resulting from:		
Lower future tax rate on temporary differences	**(10)**	(4)
Non-taxable income items	**(7)**	(5)
Unrecorded future income tax related to regulated operations	**(127)**	(89)
Change in income tax positions	**(13)**	10
Changes in future tax rate	**(66)**	(34)
	(223)	(122)
Income tax (recovery) expense	**(51)**	86
Effective rate of income taxes	**(10.7%)**	14.9%

The Company has revised its future income tax assets and liabilities to reflect the lower federal income tax rates recently enacted.

In the third quarter of 2006, OPG received a preliminary communication from the Provincial Tax Auditors with respect to their initial findings from their audit of OPG's 1999 taxation year. Many of the issues raised through the audit are unique to OPG and relate either to start-up matters and positions taken on April 1, 1999 upon commencement of operations, or matters that were not adequately addressed through the *Electricity Act, 1998*. Although OPG has subsequently resolved some of these issues, there is uncertainty as to how the remaining issues will be resolved. OPG expects to receive a reassessment for its 1999 taxation year. The Company would defend its position through the tax appeals process.

OPG has previously recorded income tax charges related to certain income tax positions that the Company has taken in prior years that may be disallowed. Given the uncertainty as to how these income tax matters will be resolved, OPG has not adjusted its income tax liabilities. Should the ultimate outcome materially differ from OPG's recorded income tax liabilities, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

Significant components of the income tax (recovery) expense are presented in the table below:

(millions of dollars)	**2007**	2006
Current income tax expense	**1**	60
Future income tax expense (benefits):		
Change in temporary differences	**(2)**	–
Non-capital loss carry-forward	**–**	52
Changes in future tax rate	**(30)**	–
Other	**(20)**	(26)
	(52)	26
Income tax (recovery) expense	**(51)**	86

The income tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31, 2007 and 2006 are presented in the table below:

(millions of dollars)	**2007**	2006
Future income tax assets:		
Fixed asset removal and nuclear waste management liabilities	**22**	29
Other liabilities and assets	**125**	107
Non-capital loss carry-forward	**–**	28
Future recoverable Ontario minimum tax	**87**	64
	234	228
Future income tax liabilities:		
Fixed assets	**263**	332
Other liabilities and assets	**176**	145
	439	477
Net future income tax liabilities	**205**	249
Represented by:		
Current portion (asset) liability	**(12)**	3
Long-term portion	**217**	246
	205	249

The following table summarizes the difference in the consolidated statements of income and consolidated statements of comprehensive income under the taxes payable method used by the Company to account for income taxes for the regulated businesses compared to what would have been reported had OPG applied the liability method for the regulated businesses for 2007 and 2006:

(millions of dollars)	**2007**	2006
As stated:		
Future income tax expense	**(52)**	26
Future income tax: Other comprehensive income – upon transition	**16**	–
Future income tax: Other comprehensive income – for the period	**(8)**	–
Liability method[1]:		
Future income tax expense	**75**	115
Future income tax: Other comprehensive income – upon transition	**12**	–
Future income tax: Other comprehensive income – for the period	**(6)**	–

[1] OPG accounts for certain lease revenues relating to the regulated businesses using the cash basis of accounting. The related future income tax impact is excluded from the above.

The following table summarizes the difference in the consolidated balance sheet amounts under the taxes payable method used by the Company to account for income taxes compared to what would have been reported had OPG applied the liability method for the regulated business as at December 31, 2007 and 2006:

	2007		2006	
(millions of dollars)	**As Stated**	**Liability Method**[1]	As Stated	Liability Method
Current future income tax recoverable (liabilities)	**12**	**39**	(3)	(4)
Long-term future income tax liabilities	**(217)**	**(680)**	(246)	(417)

[1] OPG accounts for certain lease revenues relating to the regulated businesses using the cash basis of accounting. The related future income tax impact is excluded from the above.

The amount of cash income taxes paid for 2007 was $64 million (2006 – $24 million).

12 Benefit Plans

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. The registered pension plan is a contributory defined benefit plan covering most employees and retirees. Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. The supplementary pension plans are defined benefit plans covering certain employees and retirees.

Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The pension and OPEB obligations, and the pension fund assets, are measured at December 31, 2007.

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2007	2006	**2007**	2006
Weighted Average Assumptions – Benefit Obligation at Year End				
Rate used to discount future benefits	**5.60%**	5.25%	**5.59%**	5.22%
Salary schedule escalation rate	**3.25%**	3.00%	**–**	–
Rate of cost of living increase to pensions	**2.25%**	2.00%	**–**	–
Initial health care trend rate	**–**	–	**6.91%**	7.34%
Ultimate health care trend rate	**–**	–	**4.68%**	4.68%
Year ultimate rate reached	**–**	–	**2014**	2014
Rate of increase in disability benefits	**–**	–	**2.25%**	2.00%

	Registered and Supplementary Pension Plans		Other Post Employment Benefits	
	2007	2006	**2007**	2006
Weighted Average Assumptions – Cost for the Year				
Expected return on plan assets net of expenses	**7.00%**	7.00%	**–**	–
Rate used to discount future benefits	**5.25%**	5.00%	**5.22%**	4.97%
Salary schedule escalation rate	**3.00%**	3.00%	**–**	–
Rate of cost of living increase to pensions	**2.00%**	2.00%	**–**	–
Initial health care trend rate	**–**	–	**7.34%**	7.76%
Ultimate health care trend rate	**–**	–	**4.68%**	4.68%
Year ultimate rate reached	**–**	–	**2014**	2014
Rate of increase in disability benefits	**–**	–	**2.00%**	2.00%
Average remaining service life for employees (years)	**11**	11	**11**	11

(millions of dollars)	Registered Pension Plan 2007	Registered Pension Plan 2006	Supplementary Pension Plans 2007	Supplementary Pension Plans 2006	Other Post Employment Benefits 2007	Other Post Employment Benefits 2006
Changes in Plan Assets						
Fair value of plan assets at beginning of year	**8,829**	7,921	**–**	–	**–**	–
Contributions by employer	**268**	261	**7**	7	**66**	62
Contributions by employees	**66**	61	**–**	–	**–**	–
Actual return on plan assets net of expenses	**159**	945	**–**	–	**–**	–
Benefit payments	**(398)**	(359)	**(7)**	(7)	**(66)**	(62)
Fair value of plan assets at end of year	**8,924**	8,829	**–**	–	**–**	–
Changes in Projected Benefit Obligation						
Projected benefit obligation at beginning of year	**9,313**	9,095	**152**	144	**2,067**	2,065
Employer current service costs	**224**	212	**6**	6	**70**	71
Contributions by employees	**66**	61	**–**	–	**–**	–
Interest on projected benefit obligation	**493**	459	**8**	7	**109**	104
Past service costs	**–**	–	**–**	–	**–**	13
Benefit payments	**(398)**	(359)	**(7)**	(7)	**(66)**	(62)
Net actuarial loss (gain)	**(95)**	(155)	**3**	2	**(116)**	(124)
Projected benefit obligation at end of year	**9,603**	9,313	**162**	152	**2,064**	2,067
Funded Status – Deficit at end of year	**(679)**	(484)	**(162)**	(152)	**(2,064)**	(2,067)

The assets of the OPG pension fund are allocated among three principal investment categories. Furthermore, equity investments are diversified across Canadian, U.S. and non-North American stocks. The fund also has a small real estate portfolio that is less than one per cent of plan assets.

	2007	2006
Registered pension plan fund asset investment categories		
Equities	**60%**	67%
Fixed income	**35%**	30%
Cash and short-term investments	**5%**	3%
Total	**100%**	100%

Based on the most recently filed actuarial valuation, as at January 1, 2005, there was an unfunded liability on a going-concern basis of $465 million and a deficiency on a wind-up basis of $1,979 million. The deficit disclosed in the next filed funding valuation, which must have an effective date no later than January 1, 2008, could be significantly different.

The supplementary pension plans are not funded, but are secured by Letters of Credit totalling $175 million (2006 – $159 million).

(millions of dollars)	Registered Pension Plan 2007	Registered Pension Plan 2006	Supplementary Pension Plans 2007	Supplementary Pension Plans 2006	Other Post Employment Benefits 2007	Other Post Employment Benefits 2006
Reconciliation of Funded Status to Accrued Benefit Asset (Liability)						
Funded status – deficit at end of year	**(679)**	(484)	**(162)**	(152)	**(2,064)**	(2,067)
Unamortized net actuarial loss	**1,346**	1,108	**22**	20	**538**	699
Unamortized past service costs	**64**	82	**3**	3	**20**	25
Accrued benefit asset (liability) at end of year	**731**	706	**(137)**	(129)	**(1,506)**	(1,343)
Short-term portion	**–**	–	**(7)**	(6)	**(80)**	(70)
Long-term portion	**731**	706	**(130)**	(123)	**(1,426)**	(1,273)

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006
Components of Cost Recognized						
Current service costs	**224**	212	**6**	6	**70**	71
Interest on projected benefit obligation	**493**	459	**8**	7	**109**	104
Expected return on plan assets net of expenses	**(569)**	(551)	**–**	–	**–**	–
Amortization of past service costs	**18**	18	**–**	1	**5**	4
Amortization of net actuarial loss	**77**	80	**1**	–	**45**	62
Cost recognized	**243**	218	**15**	14	**229**	241

	Registered Pension Plan		Supplementary Pension Plans		Other Post Employment Benefits	
(millions of dollars)	**2007**	2006	**2007**	2006	**2007**	2006
Components of Cost Incurred and Recognized						
Current service costs	**224**	212	**6**	6	**70**	71
Interest on projected benefit obligation	**493**	459	**8**	7	**109**	104
Actual return on plan assets net of expenses	**(159)**	(945)	**–**	–	**–**	–
Past service costs	**–**	–	**–**	–	**–**	13
Net actuarial (gain) loss	**(95)**	(155)	**3**	2	**(116)**	(124)
Cost incurred in year	**463**	(429)	**17**	15	**63**	64
Differences between costs incurred and recognized in respect of:						
Actual return on plan assets net of expenses	**(410)**	394	**–**	–	**–**	–
Past service costs	**18**	18	**–**	1	**5**	(9)
Net actuarial loss (gain)	**172**	235	**(2)**	(2)	**161**	186
Cost recognized	**243**	218	**15**	14	**229**	241

A one per cent increase or decrease in the health care trend rate would result in an increase in the service and interest components of the 2007 OPEB cost recognized of $37 million (2006 – $34 million) or a decrease in the service and interest components of the 2007 OPEB cost recognized of $29 million (2006 – $26 million), respectively. A one per cent increase or decrease in the health care trend rate would result in an increase in the projected OPEB obligation at December 31, 2007 of $328 million (2006 – $342 million) or a decrease in the projected OPEB obligation at December 31, 2007 of $256 million (2006 – $265 million).

13 Financial Instruments

Risk Management and Hedging Activities

OPG is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. To hedge the commodity price risk exposure associated with changes in the wholesale price of electricity, OPG enters into various energy and related sales contracts. These contracts are expected to be effective as hedges of the commodity price exposure on OPG's generation portfolio. Gains or losses on hedging instruments are recognized in income when the underlying hedged transactions occur. These gains or losses are included in unregulated revenue and are recorded on the consolidated balance sheets. All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in other revenue.

OPG also enters into derivative contracts with major financial institutions to manage the Company's exposure to foreign currency movements. Foreign exchange translation gains and losses on these foreign currency denominated derivative contracts are recognized as an adjustment to the purchase price of the commodity or goods received.

OPG is exposed to changes in market interest rates on debt expected to be issued in the future. OPG uses interest rate derivative contracts to hedge this exposure. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded through net income in the period incurred.

OPG utilizes ERCs and allowances to manage emissions within the prescribed regulatory limits. ERCs are purchased from trading partners in Canada and the United States. Emission allowances are obtained from the Province and purchased from trading partners in Ontario. The cost of ERCs and allowances are held in inventory and charged to OPG's operations at average cost as part of fuel expense as required. Options to purchase ERCs are accounted for as derivatives and are recorded at estimated market value.

Equity price risk is the risk of loss due to volatility in the prices of individual equity instruments and equity indices. The holdings of OPG's Nuclear Funds and pension fund include publicly traded equity investments. As a result, the value of these investments is subject to capital market volatility. This risk can impact the value of the investments held by OPG's Nuclear Funds and pension fund.

To manage this risk, OPG's Nuclear Funds and pension fund have investment policies and procedures in place to set out the investment framework of the funds, including the investment assumptions, permitted investments, and various investment constraints. Such policies and procedures are approved annually by OPG's Investment Funds Oversight Committee of the Board of Directors. For the Nuclear Funds, such policies and procedures are also agreed to jointly with the Province, under ONFA.

Hedge Accounting

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When a derivative hedging relationship is expired, the designation of a hedging relationship is terminated, or a portion of the hedging instrument is no longer effective, any associated gains or losses included in AOCI are recognized in income in the current period's consolidated statement of income.

Determination of Fair Value

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Forward pricing information is inherently uncertain so that fair values of derivative instruments may not accurately represent the cost to enter into these positions. To address the impact of some of this uncertainty on trading positions, OPG established liquidity reserves against the mark-to-market gains or losses of these positions.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net income upon settlement when the underlying transactions occur. OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

	Notional Quantity	**Terms**	**Fair Value**	Notional Quantity	Terms	Fair Value
(millions of dollars except where noted)		**2007**			2006	
Gain (loss)						
Electricity derivative instruments	**1.8 TWh**	**1-3 yrs**	**35**	4.3 TWh	1-4 yrs	51
Foreign exchange derivative instruments	**U.S. $48**	**Sep./08**	**(1)**	U.S. $2	Jan./07	–
Floating to fixed interest rate hedges	**43**	**1-11 yrs**	**(2)**	45	1-12 yrs	(3)
Forward start interest rate hedges	**692**	**1-12 yrs**	**(6)**	622	1-14 yrs	(9)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at December 31, 2007 was U.S. $1.00 (2006 – U.S. $0.87) for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 per cent. OPG's proportionate interest in the swap is 50 per cent and is accounted for as a hedge.

OPG entered into a number of forward start interest rate swap agreements to hedge against the effect of future interest rate movements based on the anticipated future borrowing requirement for the Niagara Tunnel and the Portlands Energy Centre projects, and OPG's general corporate facility. Although these transactions are ordinarily accounted for as hedges, a gain of approximately $3 million was recorded to account for ineffectiveness in the hedges for 2006.

In 2007, OPG has de-designated a number of forward start interest rate hedges as the previously anticipated future borrowings associated with these instruments were no longer expected to occur. As a result of the de-designation, a gain of $1 million was reclassified to net income in 2007.

Net gains of $15 million related to derivative instruments qualifying for hedge accounting were recognized in net income in 2007. These amounts were previously recorded in other comprehensive income.

Existing net gains of $20 million deferred in accumulated other comprehensive income as at December 31, 2007 are expected tobe reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

	Notional Quantity	**Fair Value**	Notional Quantity	Fair Value
(millions of dollars except where noted)	**2007**		2006	
Foreign exchange derivative instruments	**U.S.$14**	**(2)**	–	–
Commodity derivative instruments				
Assets	**9.9 TWh**	**14**	3.9 TWh	25
Liabilities	**1.2 TWh**	**(10)**	2.6 TWh	(25)
		2		–
Market liquidity reserve		**(2)**		(2)
Total		**–**		(2)

Foreign exchange derivative instruments that are not designated as hedges have a weighted average exchange rate of U.S. $0.86 at December 31, 2007.

Fair Value of Other Financial Instruments

The carrying values of financial instruments such as in cash and cash equivalents, accounts receivable, long-term accounts receivable and other assets, accounts payable and accrued charges, and long-term accounts payable and accrued charges approximate their fair values. Fair values for other financial instruments have been estimated by reference to quoted market prices for actual or similar instruments where available.

The carrying values and fair values of these other financial instruments as at December 31, 2007 and 2006 are as follows:

	Carrying Value	**Fair Value**	Carrying Value	Fair Value
(millions of dollars)	**2007**		2006	
Financial Assets				
Nuclear fixed asset removal and nuclear waste management funds	**9,263**	**9,263**	7,594	8,113
Financial Liabilities				
Long-term debt due within one year	**407**	**409**	406	409
Long-term debt	**3,446**	**3,502**	2,953	3,082

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. As the majority of OPG's sales are through the IESO administered spot market, OPG management accepts this credit risk due to the IESO's primary role in the Ontario electricity market. This confidence is based on the IESO's own credit risk management policies and practices, which require all spot market participants to meet specific standards for creditworthiness. Additionally, in the event of a participant default, the loss is shared on a pro-rata basis among all participants thus reducing the specific exposure to OPG.

Credit exposure to the IESO fluctuates based on spot prices and the volume of rate regulated and unregulated generation, and is reduced each month upon settlement of the accounts. Credit exposure to the IESO peaked at $883 million in 2007 (2006 – $1,029 million).

OPG's second element of credit risk relates to the exposures created by companies ("counterparties") who are contracted to provide services or products. OPG manages this risk using a comprehensive credit risk management function that independently evaluates all major counterparties and provides continuous input to business units who acquire these services.

14 Common Shares

As at December 31, 2007 and 2006, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value.

15 Commitments and Contingencies

Litigation

Various legal proceedings are pending against OPG or its subsidiaries, covering a wide range of matters, that arise in the ordinary course of its business activities.

On August 9, 2006, a Notice of Action and Statement of Claim in the amount of $500 million (the "Claim") was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001. British Energy was an investor in Bruce Power L.P. In 2003, British Energy sold its interest in Bruce Power L.P. to a group of investors (the "Purchasers"). The Purchasers are claiming that British Energy is liable to them with respect to this purchase transaction. Their claim is currently the subject of an arbitration proceeding (the "Arbitration"). British Energy is therefore suing OPG in order to preserve any similar claim it may have against OPG pursuant to the 2001 lease transaction. British Energy has indicated that it does not require OPG to actively defend the Claim at this point in time as British Energy is defending the Arbitration commenced by the Purchasers. The Arbitration may narrow or eliminate the claims or damages British Energy has, so as to narrow or eliminate the need to continue the Claim against OPG. British Energy has reserved the right to require OPG to defend the Claim prior to the conclusion of the Arbitration should British Energy at some point believe there is some advantage in doing so.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total approximately $163 million and claims by others are for unspecified amounts. In 2007, OPG recorded additional expenses associated with past grievances by First Nations.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. During 2007, OPG recorded expenditures of $2 million (2006 – $4 million). As at December 31, 2007, the remaining provision was $45 million (2006 – $52 million).

Current operations are subject to regulation with respect to air, soil and water quality and other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet OPG's current environmental obligations.

Guarantees

As part of normal business, OPG and certain of its subsidiaries and joint ventures enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, standby Letters of Credit and surety bonds.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at December 31, 2007 are as follows:

(millions of dollars)	2008	2009	2010	2011	2012	Thereafter	**Total**
Contractual obligations:							
Fuel supply agreements	694	417	325	258	219	374	**2,287**
Contributions under the ONFA[1]	454	350	350	317	308	1,239	**3,018**
Long-term debt repayment	400	350	970	375	400	1,170	**3,665**
Interest on long-term debt	201	183	152	103	75	288	**1,002**
Unconditional purchase obligations	18	17	16	12	13	174	**250**
Long-term accounts payable	9	–	–	–	–	–	**9**
Operating lease obligations	12	12	13	13	13	2	**65**
Operating licence	20	19	21	22	22	–	**104**
Pension contributions[2]	260	–	–	–	–	–	**260**
Other	33	31	34	32	18	42	**190**
	2,101	1,379	1,881	1,132	1,068	3,289	**10,850**
Significant commercial commitments:							
Niagara Tunnel	146	258	34	–	–	–	**438**
Other hydroelectric projects	48	8	1	–	–	–	**57**
Portlands Energy Centre	59	5	3	3	3	46	**119**
Total	2,354	1,650	1,919	1,135	1,071	3,335	**11,464**

[1] Contributions under the ONFA are subject to adjustment due to the 2006 Approved Reference Plan.

[2] The pension contributions include additional funding requirements towards the deficit and ongoing funding requirements in accordance with the actuarial valuation as at January 1, 2005. The contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, and the timing of funding valuations. Funding requirements after 2008 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The pension contributions are subject to change as a result of the filing of the actuarial valuation in 2008.

Niagara Tunnel

The Niagara Tunnel project will increase the amount of water flowing to existing turbines at OPG's Sir Adam Beck generating stations in Niagara Falls, allowing the stations to more effectively utilize available water. At December 31, 2007, the tunnel boring machine had advanced 1,609 metres. The progress of the tunnel boring machine by the design-build contractor through a fractured rock formation has been slower than expected. Considerable uncertainty remains with respect to the schedule until the tunnel boring machine advances sufficiently beyond the St. David's gorge to approximately 2,300 metres, and establishes consistent tunneling performance.

The contract structure places the onus on the contractor to mitigate schedule delays, and includes liquidated damages provisions for failure to meet the contractual in-service date.

Based on the information provided by the contractor, the in-service date of the tunnel will be delayed. To mitigate the impact of the schedule delay, the contractor is investigating alternatives, including the realignment of the tunnel. The estimated in-service date will be dependent on the alternative selected by the contractor. Considerable uncertainty remains with respect to the schedule for any of the contractor's alternatives until the tunnel boring machine has advanced beyond the St. David's gorge.

There is a potential that the schedule delay could impact the project cost. The project cost estimate of $985 million will be reviewed in conjunction with the changes to the project completion schedule and a review of actual subsurface rock conditions compared to those that were anticipated as part of the design-build contract.

The capital project expenditures for the year ended December 31, 2007 were $60 million and life-to-date capital expenditures were $303 million. The project is debt financed through the OEFC.

Lac Seul

OPG is constructing a new 12.5 MW hydroelectric generating station on the English River. The new Lac Seul generating station will utilize a majority of the spill currently passing the existing Ear Falls generating station, thus increasing the overall efficiency, capacity and energy generated from this location. A design-build contract was awarded and construction started during the first quarter of 2006. In accordance with the contractor's original schedule, the project was expected to be in-service in the fourth quarter of 2007. However, the contractor has advised OPG that the project is now expected to be in-service in the third quarter of 2008.

Life-to-date expenditures are $41 million. Total project costs are expected to be $47 million. The project is debt financed through the OEFC.

On December 20, 2007, the Ontario Government issued a directive to the Ontario Power Authority ("OPA") instructing the OPA to negotiate and execute a Hydroelectric Energy Supply Agreement for Lac Seul by January 31, 2008. The Lac Seul Hydroelectric Energy Supply Agreement was executed in January 2008.

Portlands Energy Centre

OPG entered into a partnership with TransCanada Energy Ltd., through the Portlands Energy Centre L.P. ("PEC"), to pursue the development of a 550 MW gas-fired, combined cycle station on the site of the former R.L. Hearn generating station, near downtown Toronto. OPG has a 50 per cent ownership interest in the joint venture.

Construction of the generating station started in 2006 and it is expected to be operational in a simple cycle mode with a capacity of up to 340 MW by June 1, 2008. The simple cycle mode will only operate as needed during the summer of 2008, after which the generating station will be taken out of service to enable construction to be completed on the combined cycle mode.

The plant is expected to be completed and fully operational in the second quarter of 2009, providing up to 550 MW of power in a combined cycle mode. Project costs are expected to be within the approved budget of $730 million excluding capitalized interest. A significant proportion of this capital cost relates to an engineer-procure-construct contract to construct the facility.

OPG's share of capital project expenditures for the year ended December 31, 2007 was $176 million. OPG's share of the life-to-date capital expenditures was $273 million. OPG's share of the project is debt financed through the OEFC.

Other Commitments

In addition to the above commitments, the Company has the following commitments:

The Company maintains labour agreements with the Power Workers' Union and The Society of Energy Professionals; the agreements are effective until March 31, 2009 and December 31, 2010, respectively. As at December 31, 2007, OPG had approximately 11,700 regular employees and approximately 90 per cent of its regular labour force is covered by the collective bargaining agreements.

Contractual and commercial commitments above exclude certain purchase orders as they represent purchase authorizations rather than legally binding contracts and are subject to change without significant penalties.

Proxy Property Taxes

In November 2005, OPG received a letter from the Ministry of Finance indicating its intent to recommend to the Minister of Finance that an Ontario regulation covering proxy property taxes be updated retroactive to April 1, 1999 to reflect reassessments and appeal settlements of certain OPG properties since that date. OPG continues to discuss resolution to this issue with the Ministry of Finance as updates to the regulation may not occur for several years. OPG has not recorded any amounts relating to this anticipated regulation change.

16 Revenue Limit Rebate

Eighty-five per cent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station, stations whose generation output is subject to a HESA with the OPA pursuant to a ministerial direction, and forward sales as of January 1, 2005, is subject to a revenue limit. The output from a generating unit where there has been a fuel conversion and the incremental output from a generating station where there has been a refurbishment or expansion of these assets is also excluded from the output covered by the revenue limit. In addition, until the TRO expired on April 30, 2006, volumes sold under such options were also excluded from the revenue limit rebate.

The revenue limit, which was originally established for a period of 13 months ending April 30, 2006, was subsequently extended for an additional three years. Starting May 1, 2006, the revenue limit decreased to 4.6¢/kWh from the previous limit of 4.7¢/kWh. On May 1, 2007, the revenue limit returned to 4.7¢/kWh and it will increase to 4.8¢/kWh effective May 1, 2008. In addition, beginning April 1, 2006, volumes sold under a Pilot Auction administered by the OPA are subject to a revenue limit that is 0.5¢/kWh higher than the revenue limit applicable to OPG's other generating assets. Revenues above these limits are returned to the IESO for the benefit of consumers.

The changes in the revenue limit rebate liability are as follows:

(millions of dollars)	**2007**	2006
Liability, beginning of the year	**40**	739
Increase to provision during the year	**227**	161
Payments made during the year	**(167)**	(860)
Liability, end of year	**100**	40

17 Other Gains and Losses

(millions of dollars)	**2007**	2006
Impairment loss on the Thunder Bay and Atikokan coal-fired generating stations (Note 5)	**–**	22
Change in estimated cost required to decommission the Lakeview generating station	**(20)**	–
Impairment loss on investments in ABCP (Note 6)	**10**	–
Other (gains) and losses	**(10)**	22

The demolition of the former Lakeview coal-fired generating station was substantially completed during 2007. During the fourth quarter of 2007, the Company re-estimated the costs to complete the remaining work to remediate the site in 2008. As a result, OPG recorded a recovery of $20 million in other gains and losses to reflect a change in the estimated costs.

OPG conducted an analysis to determine the fair market value of its third-party ABCP holdings as at December 31, 2007. After reviewing this matter in detail, OPG recorded a write-down of $10 million. Further details on OPG's investments in third-party ABCP are disclosed in Note 6 of the consolidated annual financial statements.

18 Business Segments

Effective April 1, 2005, the output from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates became rate regulated. With the introduction of rate regulation, OPG revised its reportable business segments to separately reflect the regulated and unregulated aspects of its business. Commencing in the first quarter of 2006, OPG separated the Unregulated Generation business segment into two reportable segments identified as Unregulated – Fossil-Fuelled and Unregulated – Hydroelectric, as a result of changes in the management structure of these segments.

Regulated – Nuclear Segment

OPG's Regulated – Nuclear business segment operates in Ontario, generating and selling electricity from the nuclear generating stations that OPG owns and operates. The business segment includes electricity generated by the Pickering A and B, and Darlington nuclear generating stations.

OPG's Regulated – Nuclear business segment includes revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. The arrangement includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. The Regulated – Nuclear business segment also includes revenue earned from isotope sales and ancillary services. Ancillary revenues are earned through voltage control/reactive support. These revenues are included in the Regulated – Nuclear business segment since they were included in determining the regulated price for production from the nuclear facilities operated by OPG.

Bruce Nuclear Generating Stations

In May 2001, the Company leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with options to renew for up to 25 years.

Under the terms of the lease, OPG agreed to transfer certain fuel and material inventory to Bruce Power, in addition to certain fixed assets. Pension assets and liabilities related to the approximately 3,000 employees were transferred to Bruce Power. Bruce Power assumed the liability for other post employment benefits for these employees. OPG makes payments to Bruce Power in respect of other post employment benefits of approximately $2.3 million per month over a 72-month period, ending in 2008.

As part of the closing, OPG recorded deferred revenue to reflect the initial payments of $595 million less net assets transferred to Bruce Power under the lease agreement. The deferred revenue is being amortized over the initial lease term of approximately 18 years and is recorded as revenue.

In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. The transaction was completed in February 2003 and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that was formerly held by British Energy plc. The Bruce facilities will continue to be operated by Bruce Power. Upon closing of the transaction, a $225 million note receivable was paid to OPG, and lease payments commenced to be paid monthly. Proceeds from the note and applicable interest were to be applied by March 2008 against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities. OPG made an extraordinary contribution of $334 million to the Used Fuel Fund in December 2007.

As part of the agreement reached in October 2005 between the Province and Bruce Power, OPG received a Shareholder Declaration from the Province instructing OPG's Board of Directors to accept certain amendments to the lease agreement. These amendments included a change to the provisions regarding the transfer of Bruce Power's interest in the site and included a reduction of the annual lease payment for three of the four refurbished Bruce A units to $5.5 million per unit (in 2002 dollars, escalated at Consumer Price Index, that will affect the three Bruce A units to be refurbished, once the planned future refurbishments are completed. These changes to the lease agreement will affect OPG when Units 1 and 2 of the Bruce A nuclear generating station are returned to service, and when Unit 3 is refurbished at the end of its current operational life. Other changes to the existing arrangements were made to address Cameco Corporation's decision not to participate in the refurbishment of the Bruce A nuclear generating station.

For 2004 through 2008, minimum payments under the lease are $190 million annually, subject to limited exceptions. The lease revenue of $253 million (2006 – $251 million) was recorded in revenue. The remaining terms of the operating lease agreement will remain substantially unchanged until the planned future refurbishments are completed.

The net book value of fixed assets on lease to Bruce Power at December 31, 2007 was $1,201 million (2006 – $1,273 million). The net book value at December 31, 2006 includes the impact of the increase in the nuclear fixed asset removal and nuclear waste management liabilities relating to the Bruce units as a result of the 2006 Approved Reference Plan described in Note 10 to the audited consolidated financial statements.

Regulated – Hydroelectric Segment

OPG's Regulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from most of OPG's baseload hydroelectric generating stations. The business segment is comprised of electricity generated by the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. The Regulated – Hydroelectric business segment also includes ancillary revenues related to these stations earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control.

Unregulated – Hydroelectric Segment

The Unregulated – Hydroelectric business segment operates in Ontario, generating and selling electricity from its hydroelectric generating stations that are not subject to rate regulation. The Unregulated – Hydroelectric business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control, and revenues from other services.

Unregulated – Fossil-Fuelled Segment

The Unregulated – Fossil-Fuelled business segment operates in Ontario, generating and selling electricity from its fossil-fuelled generating stations, which are not subject to rate regulation. The Unregulated – Fossil-Fuelled business segment also includes ancillary revenues earned through offering available generating capacity as operating reserve, and through the supply of other ancillary services including voltage control/reactive support, automatic generation control, and revenues from other services.

Other

OPG earns revenue from its joint venture share of Brighton Beach related to an energy conversion agreement between Brighton Beach and Coral. In addition, the Other category includes revenue from real estate rentals.

The revenue and expenses related to OPG's trading and other non-hedging activities are also included in the Other category. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, sales of financial risk management products and sales of energy-related products. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in other revenue as gains or losses.

OM&A expenses of the generation business segments include an inter-segment service fee for the use of certain property, plant and equipment of the Other category. The total service fee is recorded as a reduction to the Other category's OM&A expenses. For the year ended December 31, 2007, the service fee was $33 million for Regulated – Nuclear, $2 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $50 million for the Other category. For the year ended December 31, 2006, the service fee was $30 million for Regulated – Nuclear, $3 million for Regulated – Hydroelectric, $4 million for Unregulated – Hydroelectric and $11 million for Unregulated – Fossil-Fuelled, with a corresponding reduction in OM&A expenses of $48 million for the Other category.

Segment Income (Loss) for the Year Ended December 31, 2007 (millions of dollars)	**Regulated**		**Unregulated**			
	Nuclear	**Hydro-electric**	**Hydro-electric**	**Fossil-Fuelled**	**Other**	**Total**
Revenue	**2,581**	**695**	**763**	**1,713**	**135**	**5,887**
Revenue limit rebate	**–**	**–**	**(64)**	**(163)**	**–**	**(227)**
	2,581	**695**	**699**	**1,550**	**135**	**5,660**
Fuel expense	**133**	**244**	**81**	**812**	**–**	**1,270**
Gross margin	**2,448**	**451**	**618**	**738**	**135**	**4,390**
Operations, maintenance and administration	**2,061**	**123**	**207**	**573**	**10**	**2,974**
Depreciation and amortization	**426**	**68**	**68**	**82**	**51**	**695**
Accretion on fixed asset removal and nuclear waste management liabilities	**499**	**–**	**–**	**8**	**–**	**507**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(481)**	**–**	**–**	**–**	**–**	**(481)**
Property and capital taxes	**31**	**11**	**10**	**21**	**12**	**85**
(Loss) income before other gains and losses	**(88)**	**249**	**333**	**54**	**62**	**610**
Other (gains) and losses (Note 17)	**(4)**	**–**	**4**	**(20)**	**10**	**(10)**
(Loss) income before interest and income taxes	**(84)**	**249**	**329**	**74**	**52**	**620**

Segment Income (Loss) for the Year Ended December 31, 2006 (millions of dollars)	Regulated		Unregulated			
	Nuclear	Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Total
Revenue	2,665	685	780	1,430	165	5,725
Revenue limit rebate	–	–	(44)	(117)	–	(161)
	2,665	685	736	1,313	165	5,564
Fuel expense	122	245	88	643	–	1,098
Gross margin	2,543	440	648	670	165	4,466
Operations, maintenance and administration	1,942	92	189	524	5	2,752
Depreciation and amortization	368	66	69	133	53	689
Accretion on fixed asset removal and nuclear waste management liabilities	490	–	–	9	–	499
Earnings on nuclear fixed asset removal and nuclear waste management funds	(371)	–	–	–	–	(371)
Property and capital taxes	44	18	15	19	10	106
Income (loss) before other gains and losses	70	264	375	(15)	97	791
Other (gains) and losses (Note 17)	–	–	–	22	–	22
Income (loss) before interest and income taxes	70	264	375	(37)	97	769

	Regulated		Unregulated			
(millions of dollars)	Nuclear	Hydroelectric	Hydroelectric	Fossil-Fuelled	Other	Total
Selected Balance Sheet Information						
As at December 31, 2007						
Segment fixed assets in service, net	**4,030**	**3,871**	**2,996**	**422**	**508**	**11,827**
Segment construction work in progress	**210**	**299**	**88**	**322**	**31**	**950**
Segment property, plant and equipment, net	**4,240**	**4,170**	**3,084**	**744**	**539**	**12,777**
Segment materials and supplies inventory, net:						
Short-term	**73**	**1**	**–**	**51**	**–**	**125**
Long-term	**346**	**–**	**3**	**4**	**–**	**353**
Segment fuel inventory	**231**	**–**	**–**	**373**	**–**	**604**
As at December 31, 2006						
Segment fixed assets in service, net	4,213	3,907	3,012	408	544	12,084
Segment construction work in progress	165	252	78	145	37	677
Segment property, plant and equipment, net	4,378	4,159	3,090	553	581	12,761
Segment materials and supplies inventory, net:						
Short-term	63	1	–	48	–	112
Long-term	320	–	3	3	–	326
Segment fuel inventory	183	–	–	486	–	669
Selected Cash Flow Information						
Year ended December 31, 2007						
Investment in fixed assets	**207**	**80**	**66**	**270**	**43**	**666**
Year ended December 31, 2006						
Investment in fixed assets	173	171	81	71	141	637

19 Related Party Transactions

Given that the Province owns all of the shares of OPG, related parties include the Province, the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. OPG also enters into related party transactions with its joint ventures. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

These transactions are summarized below:

	Revenue	**Expenses**	Revenue	Expenses
(millions of dollars)	**2007**		2006	
Hydro One				
Electricity sales	**28**	**–**	34	–
Services	**–**	**12**	–	13
Province of Ontario				
GRC water rentals and land tax	**–**	**129**	–	132
Guarantee fee	**–**	**8**	–	8
Used Fuel Fund rate of return guarantee	**–**	**(130)**	–	96
Decommissioning Fund excess funding	**–**	**(291)**	–	(7)
OEFC				
GRC and proxy property tax	**–**	**199**	–	205
Interest income on receivable	**–**	**(6)**	–	(29)
Interest expense on long-term notes	**–**	**187**	–	203
Capital tax	**–**	**32**	–	51
Income taxes	**–**	**(51)**	–	86
Indemnity fees	**–**	**–**	–	2
IESO				
Electricity sales	**5,094**	**104**	5,029	146
Revenue limit rebate	**(227)**	**–**	(161)	–
Ancillary services	**145**	**–**	132	–
Other	**–**	**1**	1	1
	5,040	**194**	5,035	907

During 2006, OPG's Board of Directors approved the payment of a dividend to its shareholder, the Province. The declared dividend of $128 million represents 35 per cent of OPG's 2005 net income and was paid in November 2006.

At December 31, 2007, accounts receivable included $2 million (2006 – $8 million) due from Hydro One and $211 million (2006 – $71 million) due from the IESO. Accounts payable and accrued charges at December 31, 2007 included $2 million (2006 – $2 million) due to Hydro One.

20 Joint Ventures

Significant joint ventures include Brighton Beach and PEC, which are 50 per cent owned by OPG.

The following condensed information from the consolidated statements of operations, cash flows and balance sheets detail the Company's share of its investments in joint ventures and partnerships that has been proportionately consolidated:

(millions of dollars)	**2007**	2006
Proportionate joint venture operations		
Operating revenue	**43**	39
Operating expenses	**(24)**	(19)
Net income	**19**	20
Proportionate joint venture cash flows		
Operating activities	**1**	17
Investing activities	**(165)**	(109)
Financing activities	**164**	(6)
Share of changes in cash	**–**	(98)
Proportionate joint venture balance sheets		
Current assets	**38**	25
Long-term assets	**533**	379
Current liabilities	**(24)**	(25)
Long-term liabilities	**(185)**	(191)
Share of net assets	**362**	188

21 Investment Company

The Company applied AcG-18 for all investments owned by OPGV. OPGV is a wholly owned subsidiary of the Company and its results are included into the Company's consolidated financial statements. The carrying amount of OPGV's investments was $45 million (2006 – $32 million) and the amount was included as long-term accounts receivable and other assets on the consolidated balance sheets.

As a result of the application of this policy, the Company's net income and other assets for 2007 increased by $13 million (2006 – $2 million). The net realized gains and losses for OPGV was nil in 2007 (2006 – $1 million).

The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2007 were $19 million and $15 million, respectively. The gross unrealized gains and losses on the investment held by OPGV as at December 31, 2006 were $5 million and $14 million, respectively.

22 Research and Development

For the year ended December 31, 2007, $88 million (2006 – $66 million) of research and development expenses were charged to operations.

23 Changes in Non-Cash Working Capital Balances

(millions of dollars)	**2007**	2006
Accounts receivable	**(97)**	303
Prepaid expenses	**(9)**	–
Fuel inventory	**65**	(88)
Materials and supplies	**(13)**	–
Revenue limit rebate payable	**227**	161
Accounts payable and accrued charges	**(42)**	54
Income and capital taxes payable	**(62)**	47
	69	477

Officers

Jake Epp
Chairman

Jim Hankinson
President and CEO

Bruce Boland
Senior Vice President,
Corporate Affairs

David Brennan
Senior Vice President,
Law and General Counsel

Jim Burpee
Executive Vice President,
Corporate Development

Pierre Charlebois
Executive Vice President
and Chief Operating Officer

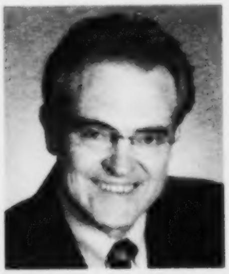
Janice Dunlop
Senior Vice President,
Human Resources and
Chief Ethics Officer

Donn Hanbidge
Senior Vice President and
Chief Financial Officer

Catriona King
Vice President,
Corporate Secretary

Tom Mitchell
Chief Nuclear Officer

John Murphy
Executive Vice President,
Hydro


Ken Nash
Senior Vice President,
Nuclear Waste
Management

Colleen Sidford
Vice President, Treasurer

Jim Twomey
Executive Vice President,
Fossil

Ontario Power Generation Facilities

OPG's electricity generating portfolio as of December 31, 2007, had a total in-service capacity of 22,158 megawatts (MW).

3
Nuclear Stations

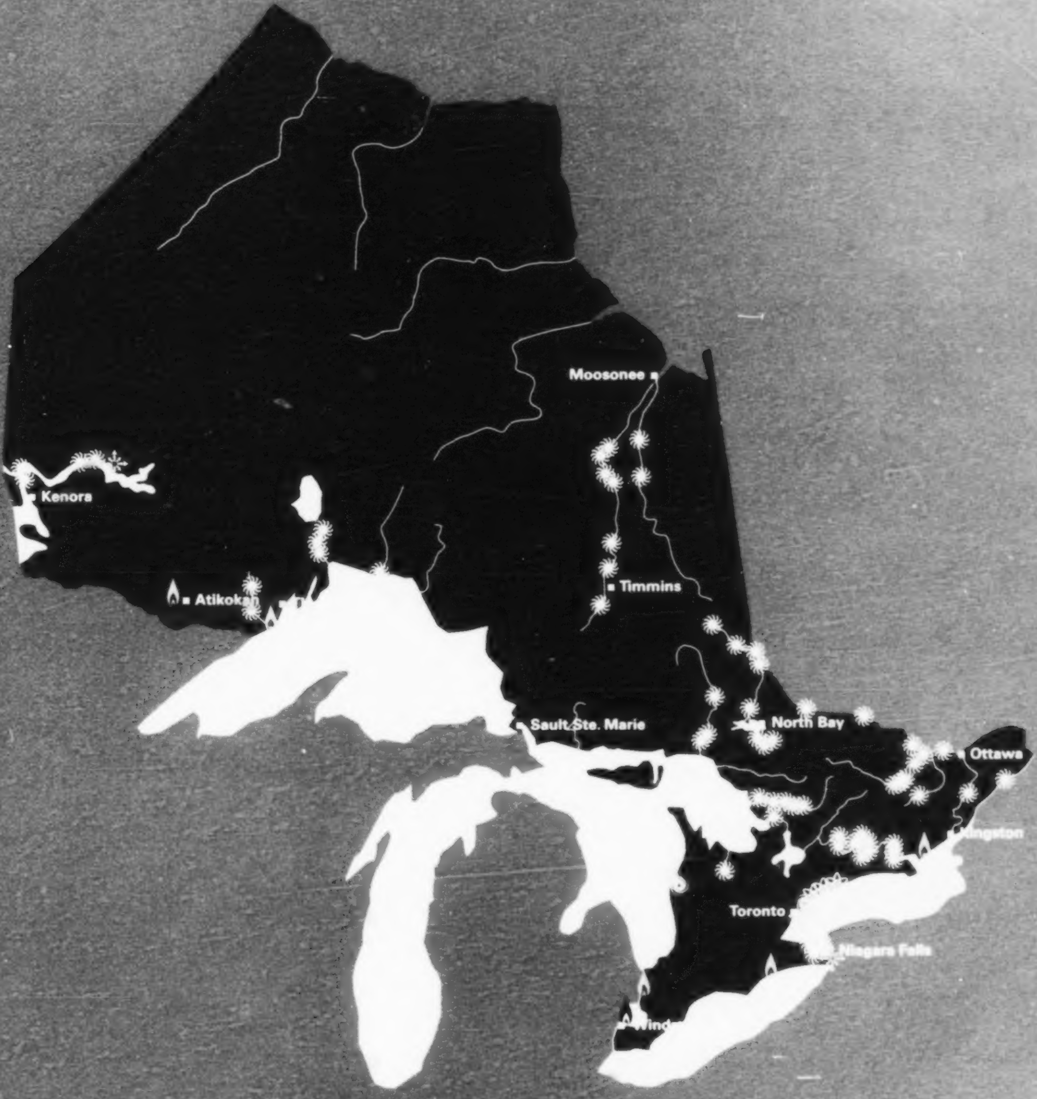
5
Fossil-Fuelled Stations

1
Co-owned Gas-Fired Station*

64
Hydroelectric Stations

3
Wind Power Stations**

3
New Generation Projects***


Moosonee
Kenora
Atikokan
Timmins
Sault Ste. Marie
North Bay
Ottawa
ingston
Toronto
Niagara Falls
Wind

---

* The 580 MW Brighton Beach gas-fired generating station in Windsor is co-owned by OPG with ATCO Power Canada Ltd. and ATCO Resources LTD. The station's capacity is not included as part of OPG's total in-service capacity, listed above.

** Includes a 50% interest in the Huron Wind joint venture (sold in February 2008).

*** Consists of two hydroelectric projects and one gas-fired generation project.

Pictured on the front cover

UPPER PHOTO – Sam Papadopoulos, Nanticoke generating station

LOWER PHOTOS – LeRoy Bell (retired), Niagara Plant Group; Construction work at the Lac Seul hydroelectric development project; Donna Mason, Darlington nuclear generating station; Tony Dametto; Andrew Quan; Sheldon Robertson; David Ferguson, Pickering A nuclear generating station

This annual report is also available in French on our website – ce rapport est également publié en français – at **www.opg.com**

Please recycle.

The head office of Ontario Power Generation Inc. is located at
700 University Avenue, Toronto, Ontario M5G 1X6;
telephone (416) 592-2555 or (877) 592-2555.

FSC
Mixed Sources
Product group from well-managed forests and other controlled sources
Cert no. SW-COC-1832
www.fsc.org
© 1996 Forest Stewardship Council

Materials used in this report are environmentally friendly. Cover and text stocks are recycled and recyclable, with a minimum of 10% post-consumer waste. Vegetable-based inks have been used throughout.

ONTARIOPOWER
GENERATION